

**Washington Township
Health Care District**

**Financial Statements
June 30, 2016 and 2015**

Washington Township Health Care District
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June 30, 2016 and 2015

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Report of Independent Auditors

To Board of Directors
Washington Township Health Care District

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Washington Township Health Care District (the "District"), which comprise the individual statements of net position as of June 30, 2016 and June 30, 2015, and the related individual statements of revenues, expenses, and changes in net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Washington Township Health Care District at June 30, 2016 and June 30, 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 1 to the financial statements, the District changed the manner in which it presents certain fair value hierarchy disclosures related to investments in the year ended June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 3 through 21 and the required supplemental information on pages 61 through 65 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Priscilla Hunter Crogers LLP". The signature is written in a cursive, flowing style.

October 21, 2016

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Overview of the Financial Statements

The annual report consists of Management's Discussion and Analysis, financial statements and notes to those statements. These statements are organized to present the Washington Township Health Care District (the District) and Washington Hospital Healthcare Foundation (the Foundation) as discrete financial entities, operating as a financial whole. Readers should also review the accompanying notes to the financial statements as they provide additional information that is essential to a full understanding of the District's and Foundation's financial statements.

The statements of net position, the statements of revenues, expenses, and changes in net position, and statements of cash flows provide an indication of the District's and Foundation's financial health. The statements of net position include all of the District's and Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, using the accrual basis of accounting, as well as an indication about which portions of net position can be utilized for general purposes and which are restricted as a result of bond covenants, donor restrictions or other purposes. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses and increases and decreases in net position during the time period indicated that resulted from the District's and Foundation's operating and non-operating transactions during the year. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources and uses such as investment income, repayment of bonds, and capital additions and improvements.

District Financial Highlights for Fiscal Year 2016

- The District generated operating income of \$17.1 million compared with operating income of \$27.9 million for fiscal year 2015, a decrease of \$10.8 million. When non-operating revenues, expenses and special items are included, the District realized a \$24.9 million increase in net position for the twelve months ended June 30, 2016, compared with an increase of \$27.1 million for the previous twelve month period.
- Major items that impacted the District's operating results for the fiscal year ended June 30, 2016 (fiscal year 2016), as compared to those for the fiscal year ended June 30, 2015 (fiscal year 2015), included:
 - Net patient revenues decreased \$2.6 million (0.5 percent), due to decreased patient activity offset by a more favorable payor mix. The improvement in payor mix was due to increases in managed care volumes (particularly from preferred provider organizations).
 - Operating expenses increased \$11.0 million (2.4 percent), with salaries and benefits increasing by \$14.7 million (5.9 percent) and all other expenses decreasing by a net amount of \$3.7 million (1.8 percent) in total.
- Regarding the District's net position as of June 30, 2016, the most significant changes resulted from the issuance of \$145.5 million in new general obligation debt, representing the balance remaining from the amount authorized by District voters as Measure Z in November 2012. The proceeds of this issue are intended to finance continued construction of the Morris Hyman Critical Care Pavilion. Also in fiscal year 2016, the District refinanced two existing issues, the 1999 Revenue bonds and the 2006 general obligation bonds, in order to take advantage of favorable interest rates. The refinancing of both of these issues will result in significant reductions in interest expense costs in future years.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

- Impact of changes in accounting guidance:

For fiscal year 2016, the District adopted the provisions of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application*. GASB No. 72 requires disclosure of fair value measurements, and methods used to determine these measurements, for certain assets and liabilities. Adoption of the standard resulted in additional footnote disclosure but did not have an impact on the amounts reported.

Analysis of the District's Net Position – Fiscal Year 2016

- Total assets increased \$186.5 million, from \$892.9 million at June 30, 2015 to \$1,079.4 million at June 30, 2016. Total cash and investments increased by \$89.8 million, from \$375.9 million to \$465.7 million, while net patient accounts receivable increased by \$0.9 million from \$68.0 million to \$68.9 million. Days of gross revenue in accounts receivable were 59.2 at June 30, 2016 as compared to 65.1 at June 30, 2015. Net capital assets increased \$88.9 million, from \$428.9 million to \$517.8 million.
- Total liabilities increased \$158.1 million, from \$617.6 million at June 30, 2015 to \$775.7 million at June 30, 2016. Accounting for the majority of this increase, long-term debt increased by \$140.5 million, from \$406.1 million to \$546.6 million, as a result of the issuance of additional general obligation debt. The increase in current liabilities from \$102.1 million to \$130.3 million was primarily attributable to amounts due for the construction in progress.
- Total net position of \$320.2 million at June 30, 2016 was \$24.9 million more than the net position of \$295.3 million at June 30, 2015.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015 (unaudited)**

Table 1 provides a summary of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position:

| <i>(in thousands)</i> | 2016 | 2015 | 2014 |
|---|---------------------|-------------------|-------------------|
| Assets | | | |
| Current assets | \$ 165,645 | \$ 123,501 | \$ 109,471 |
| Long-term investment and restricted funds | 387,386 | 332,675 | 335,674 |
| Capital assets, net | 517,761 | 428,860 | 415,006 |
| Other assets | 8,614 | 7,859 | 15,902 |
| Total assets | <u>1,079,406</u> | <u>892,895</u> | <u>876,053</u> |
| Deferred outflows of resources | 33,111 | 31,194 | 23,403 |
| Total assets and deferred outflows of resources | <u>1,112,517</u> | <u>\$ 924,089</u> | <u>\$ 899,456</u> |
| Liabilities | | | |
| Current liabilities | \$ 130,325 | \$ 102,094 | \$ 90,843 |
| Net pension liability | 52,960 | 66,440 | 71,400 |
| Long-term debt | 546,633 | 406,128 | 412,137 |
| Other long-term liabilities | 45,825 | 42,964 | 40,966 |
| Total liabilities | <u>775,743</u> | <u>617,626</u> | <u>615,346</u> |
| Deferred inflows of resources | 16,614 | 11,199 | 15,978 |
| Net position | | | |
| Net investment in capital assets | 175,504 | 159,456 | 155,732 |
| Restricted - expendable | 2,801 | 2,801 | 2,801 |
| Restricted for minority interest | 4,783 | 5,488 | 5,107 |
| Unrestricted | 137,072 | 127,519 | 104,492 |
| Total net position | <u>320,160</u> | <u>295,264</u> | <u>268,132</u> |
| Total liabilities, net position and deferred inflows of resources | <u>\$ 1,112,517</u> | <u>\$ 924,089</u> | <u>\$ 899,456</u> |

In 2016, the District's available cash and investments increased by \$89.8 million.

Table 2 provides a summary of cash and investments as of June 30, 2016, 2015 and 2014.

| <i>(in thousands)</i> | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| Cash and cash equivalents and short-term investments | \$ 78,281 | \$ 43,216 | \$ 37,357 |
| Board designated fund – funded depreciation | 163,067 | 175,420 | 158,288 |
| Workers' compensation fund | 11,998 | 11,648 | 11,501 |
| Unexpended capital bond funds, excluding amounts required for current liabilities | 209,520 | 142,806 | 163,084 |
| Specific purpose fund | 2,801 | 2,801 | 2,801 |
| Total available cash and investments | <u>\$ 465,667</u> | <u>\$ 375,891</u> | <u>\$ 373,031</u> |

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

The District maintains sufficient cash, short-term investments and Board designated balances to cover all short-term liabilities. All excess cash is transferred to Board designated funds for future needs.

Capital Assets, Net (2016)

Net capital assets increased \$88.9 million, from \$428.9 million at June 30, 2015 to \$517.8 million at June 30, 2016. This increase resulted from \$109.0 million in capital additions and \$14.7 million in net capitalized interest expense, offset by \$34.8 million in depreciation. The net capital additions included \$4.1 million in equipment, building, and land improvements combined with an increase of \$119.6 million in construction in progress, primarily related to the new parking garage and Critical Care Pavilion projects. At June 30, 2016, outstanding commitments related to capital projects totaled \$190 million.

Debt Administration (2016 and 2015)

As part of the obligations under the bond indentures for the 2015, 2010, 2009, 2007 and 1999 Series Revenue Bonds, the District has agreed that Washington Hospital will maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. As of June 30, 2016, Washington Hospital's long-term debt service coverage ratio was 4.4 to 1.0. For the year ended June 30, 2015, Washington Hospital's long-term debt coverage ratio was 4.6 to 1.0. During the years ended June 30, 2016 and 2015, Washington Hospital's Moody's rating of Baa1 for its revenue bonds was unchanged, although the outlook was revised from negative to stable in 2015.

The Hospital's percentage of debt-to-capitalization, excluding general obligation bonds, improved during fiscal year 2016, from 35.3 percent at June 30, 2015 to 32.4 percent at June 30, 2016.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015 (unaudited)**

Revenue and Expense Analysis for the District – Fiscal Year 2016

Table 3 shows the revenues, expenses, and changes in net position for the District for the years ended June 30, 2016, 2015 and 2014:

| | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| Operating revenues | | | |
| Net patient service revenues | \$ 473,131 | \$ 475,739 | \$ 445,902 |
| Other | 9,986 | 7,143 | 11,114 |
| Total operating revenues | <u>483,117</u> | <u>482,882</u> | <u>457,016</u> |
| Operating expenses | | | |
| Salaries and wages | 193,549 | 180,310 | 192,191 |
| Employee benefits | 69,380 | 67,872 | 78,322 |
| Supplies | 56,005 | 55,602 | 56,241 |
| Professional fees | 62,654 | 61,556 | 59,573 |
| Purchased services | 35,847 | 38,229 | 36,208 |
| Depreciation | 34,355 | 33,971 | 34,665 |
| Insurance | 1,586 | 1,895 | 1,873 |
| Other operating expenses | 12,644 | 15,554 | 11,746 |
| Total operating expenses | <u>466,020</u> | <u>454,989</u> | <u>470,819</u> |
| Operating income (loss) | 17,097 | 27,893 | (13,803) |
| Nonoperating revenues and expenses, net | <u>8,969</u> | <u>1,032</u> | <u>5,603</u> |
| Increase (decrease) in net position before minority interest and restricted funds | 26,066 | 28,925 | (8,200) |
| Additional minority interest capital received | - | 151 | - |
| Minority interest distributions | <u>(1,170)</u> | <u>(1,944)</u> | <u>(1,653)</u> |
| Increase (decrease) in net position | 24,896 | 27,132 | (9,853) |
| Net position | | | |
| Beginning of year | <u>295,264</u> | <u>268,132</u> | <u>277,985</u> |
| End of year | <u>\$ 320,160</u> | <u>\$ 295,264</u> | <u>\$ 268,132</u> |

Net Patient Service Revenues

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program. These government payors account for approximately 70 percent of the District's gross revenues. Commercial preferred provider organizations (PPOs) and health maintenance organizations (HMOs) together comprise approximately 28 percent of gross revenues, with the balance of gross revenues attributable to uninsured individuals.

Net patient service revenues decreased by \$2.6 million (0.5 percent), from \$475.7 million in fiscal year 2015 to \$473.1 million in fiscal year 2016.

**Washington Township Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015 (unaudited)**

Inpatient Business Activity

The District's gross inpatient revenue increased by \$15 million (1.0 percent), from \$1.478 billion in fiscal year 2015 to \$1.493 billion in fiscal year 2016.

Table 4 presents the patient days for each year and the percentage changes:

| | 2016 Days | 2015 Days | % Change |
|----------------------|---------------|---------------|---------------|
| Specialty | | | |
| Medical/surgical | 42,160 | 42,815 | (1.5)% |
| Critical care | 7,870 | 7,865 | 0.1 |
| Special Care Nursery | 1,415 | 1,276 | 10.9 |
| Pediatrics | 379 | 396 | (4.3) |
| Obstetrics | 5,350 | 5,200 | 2.9 |
| | <u>57,174</u> | <u>57,552</u> | <u>(0.7)</u> |
| Newborn | <u>3,995</u> | <u>3,917</u> | <u>2.0</u> |
| Total patient days | <u>61,169</u> | <u>61,469</u> | <u>(0.5)%</u> |

Although admissions increased from 12,070 in fiscal year 2015 to 12,185 in fiscal year 2016, the average length of stay declined from 4.74 to 4.63 days, resulting in a decrease in inpatient days of 300 (0.5 percent), as indicated in the table above.

The overall case mix index for the District, which is a measure of patient acuity, increased from 1.472 in fiscal year 2015 to 1.525 in fiscal year 2016. The Medicare case mix index for the same period also increased from 1.684 to 1.727.

Inpatient surgeries increased by 236 (7.1 percent), from 3,301 in fiscal year 2015 to 3,537 in fiscal year 2016.

Inpatient cardiac catheterization procedures decreased by 205 (8.9 percent), from 2,298 to 2,093.

Deliveries increased by 18 (1.0 percent), from 1,843 to 1,861.

Outpatient Business Activity

The District's gross outpatient revenue decreased by \$27.3 million (4.2 percent), from \$652.1 million in fiscal year 2015 to \$624.8 million in fiscal year 2016.

Emergency room visits declined by 1,429 (2.6 percent) from 54,262 in fiscal year 2015 to 52,833 in fiscal year 2016; outpatient visits declined by 3,128 (3.5 percent) from 88,537 to 85,409.

Outpatient catheterization lab procedures declined by 316 (12.0 percent) from 2,641 to 2,325. Outpatient surgeries performed at the hospital increased by 231 (23.1 percent), from 1,001 to 1,232. This increase was primarily related to additional cases performed during the five week period that the Washington Outpatient Surgery Center (WOSC) was closed due to water damage.

Washington Township Health Care District Management’s Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Surgeries performed at the WOSC decreased by 1,772 (23.9 percent), from 7,415 in fiscal year 2015 to 5,643 in fiscal year 2016. In addition to the decline in cases related to the water damage closure mentioned above, the decrease in activity was largely due to the opening in April 2015 of a competing surgery center nearby. The new surgery center is operated by a large physician-owned medical group that employs some of the surgeons who have traditionally performed their cases at the WOSC.

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 75.63 percent and 76.11 percent for fiscal year 2016 and 2015, respectively. The decrease resulted primarily from a slight reduction in the proportion of patients covered by government payors, in particular Medi-Cal, and an increase in the proportion of patients in the private pay classification.

Charity Care

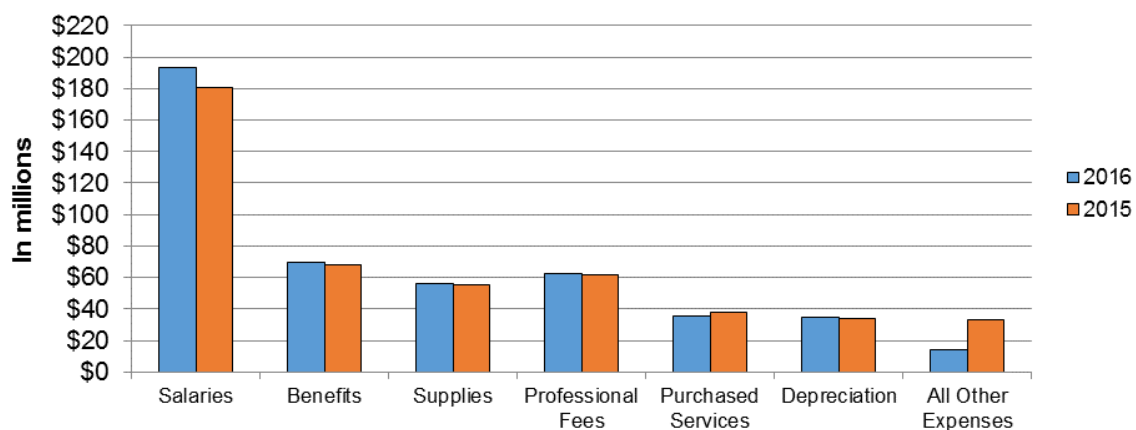
The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$5.2 million and \$8.2 million in charges foregone related to charity care for patient services during fiscal years 2016 and 2015, respectively. Private pay revenues increased from \$42.5 million in fiscal year 2015 to \$45.6 million in fiscal year 2016.

Provision for Bad Debt

The provision for bad debt (expressed as a percentage of gross revenues) was 1.98 percent in fiscal year 2016, compared to 1.47 percent in fiscal year 2015. As noted above, there was an increase in private pay revenues in fiscal year 2016. The decline in charity care and increase in bad debt resulted from a decrease in the proportion of self-pay accounts eligible for charity care under the District’s financial assistance policy.

Operating Expenses

Total operating expenses were \$466 million and \$455.0 million for fiscal years 2016 and 2015, respectively, as summarized in the graph below:



Total operating expenses increased by \$11.0 million (2.4 percent) from 2015 to 2016, with the most significant increases attributable to wage-related expenses.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Salaries and Wages

- Salaries and wages increased by \$13.2 million (7.3 percent). The District negotiated several union wage agreements in fiscal year 2016. After several years of modest wage rate inflation, increases under the new agreements were higher, reflecting the current local wage environment. Hospital's FTEs at June 30, 2016 were 1,392, an increase of 53 FTEs (4.0 percent) over the 1,339 FTEs at June 30, 2015.
- As of June 2016, approximately 68 percent of the employees of the District are members of collective bargaining groups. These employees receive periodic pay increases through the various Memoranda of Understanding that have been approved by the District's Board of Directors.
- Benefits expense increased by \$1.5 million (2.2 percent). Although the overall rate of increase in benefit costs was relatively low, reductions in multiple benefits expense categories were offset by approximately \$2.6 million (8.5 percent) in additional health insurance expenses in fiscal year 2016.

Other Operating Expenses

- Supplies expense increased \$0.4 million (0.7 percent) in fiscal year 2016. Depreciation also increased \$0.4 million (1.1 percent). Professional fees increased by \$1.1 million (1.8 percent) and purchased services decreased by \$2.4 million (6.2 percent), in fiscal year 2016. Other expenses decreased in fiscal year 2016 by \$2.9 million due to non-recurring items included in fiscal year 2015.

Non-Operating Income/Expense

The most significant changes in non-operating activity for fiscal year 2016 were the following items:

- Interest expense decreased by \$1.2 million due to the amount of capitalized interest for fiscal year 2016 increasing by \$4.1 million over the amount for fiscal year 2015, and refinancing of existing debt at more favorable interest rates.
- The increase in the fair value of investments for fiscal year 2016 of \$0.9 million reflected a swing of \$1.9 million from the \$1.0 million decrease in fair value experienced in fiscal year 2015.
- Property tax revenues of \$15.8 million for fiscal year 2016 were \$5.9 million more than for fiscal year 2015 (\$9.9 million), related to the issuance of additional general obligation debt in fiscal year 2016.
- Bond issuance costs of \$1.7 million were incurred in fiscal year 2016 in relation to additional revenue and general obligation debt incurred and/or refinanced. The bond issuance costs were funded entirely from the bond proceeds.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Payments from Federal and State Health Care Programs

Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Moreover, interpretation of the myriad of government regulations and other requirements is subject to a large degree of subjectivity. For example, individual reviewers or auditors might disagree on a patient's principal medical diagnosis, the medical necessity of a clinical procedure or the appropriate code for that procedure. Such disagreements might have a significant effect on the ultimate amount of reimbursement due from the government. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the District estimates the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs. Amounts ultimately received or paid may vary significantly from these estimates.

Health Care Reform

On March 23, 2012, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2012 the Health Care and Education Reconciliation Act of 2012 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. The Affordable Care Act has been the subject of much political debate and disagreement and the current health care landscape remains heavily politicized and highly volatile, particularly with the approach of the 2016 presidential election.

On March 1, 2013, automatic spending reduction provisions of the Budget Control Act of 2011 went into effect and they remain in effect as of June 30, 2016. These spending reductions, also known as sequestration reductions, resulted in an on-going two percent reduction in all Medicare spending. For fiscal years ended June 30, 2016 and 2015, the reduction in reimbursement was \$1.9 million and \$2.0 million, respectively.

In addition to sequestration reductions, Medicare Disproportionate Share (DSH) payments to eligible hospitals were significantly reduced in 2014. For fiscal years 2016 and 2015, DSH payments received were \$6.4 million and \$7.6 million, respectively.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 established one-time incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. A hospital may receive an incentive payment for up to four years, by meeting a series of objectives that make use of EHR's potential related to the improvement of quality, efficiency and patient safety. Meaningful use is assessed on a year-by-year basis and requires attestation by the facility that the criteria have been satisfied. For fiscal year 2016, the District's revenues included \$1.1 million in Medicare EHR and \$0.2 million in Medi-Cal EHR funding. Based on the timing of the attestation process, the District did not recognize any EHR revenues for fiscal year 2015.

Economic Factors Expected to Affect the District's 2017 Operations

The Board of Directors of the District approved the fiscal year 2017 operating budget at their June 2016 meeting. The operating budget was developed after a review of key volume indicators and trends. The budget incorporates the District's current Institutional Agenda as well as economic factors, such as estimated population growth and unemployment rates.

The fiscal year 2017 budget anticipates a 7.8 percent increase in expenditures from the fiscal year 2016 level. This increase includes a 5.7 percent increase in salaries and wages, resulting from a 3.2 percent projected increase in inpatient days, in combination with contractual salary increases.

At the same time, downward pressures on reimbursement are expected to continue. In estimating net revenues for fiscal year 2017, District staff has attempted to incorporate the continued effects of the Affordable Care Act, based on the available information. Likewise, the future state of the Bay Area economy, which is also difficult to predict, could have a significant impact on the District's operations. Additional legislation at either the State or Federal level may affect the accuracy of many of the assumptions included in the budget estimate.

**Washington Township Health Care District
Management’s Discussion and Analysis
Years Ended June 30, 2016 and 2015 (unaudited)**

Washington Hospital Healthcare Foundation

Foundation Financial Highlights for Fiscal Year 2016

- Total assets of \$7.6 million at June 30, 2016 increased \$0.1 million from \$7.5 million at June 30, 2015. Total cash and investments increased \$0.1 million, from \$6.3 million to \$6.4 million, while net contributions receivable decreased \$0.1 million from \$1.2 million to \$1.1 million.
- Net assets of \$7.5 million remained unchanged during 2016.

Analysis of the Foundation’s Net Assets – Fiscal Year 2016

Total Foundation assets of \$7.6 million at June 30, 2016 increased by \$0.1 million from June 30, 2015. Total Foundation liabilities increased by \$0.1 million, from zero at June 30, 2015 to \$0.1 million as of June 30, 2016 and the Foundation’s net assets remained unchanged at \$7.5 million as of June 30, 2016 and June 30, 2015.

Table 6 provides a summary of the Foundation’s assets, liabilities, and net assets as of June 30, 2016, 2015 and 2014:

| <i>(in thousands)</i> | 2016 | 2015 | 2014 |
|---|-----------------|-----------------|-----------------|
| Assets | | | |
| Cash and cash equivalents | \$ 612 | \$ 311 | \$ 350 |
| Contributions receivable, net | 1,143 | 1,183 | 1,307 |
| Short term investments held by district on behalf of foundation | 4,276 | 4,456 | 4,445 |
| Long term investments, unrestricted | 104 | - | - |
| Prepaid expenses and other | 1 | 76 | 70 |
| Investments | 1,432 | 1,514 | 1,445 |
| Total assets | <u>\$ 7,568</u> | <u>\$ 7,540</u> | <u>\$ 7,617</u> |
| Liabilities | | | |
| Accounts payable and accrued expenses | \$ 97 | \$ - | \$ 373 |
| Total liabilities | <u>97</u> | <u>-</u> | <u>373</u> |
| Net assets | | | |
| Restricted - expendable | 7,074 | 6,969 | 6,817 |
| Unrestricted | 397 | 571 | 427 |
| Total net assets | <u>7,471</u> | <u>7,540</u> | <u>7,244</u> |
| Total liabilities and net assets | <u>\$ 7,568</u> | <u>\$ 7,540</u> | <u>\$ 7,617</u> |

In fiscal year 2016 the Foundation’s cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation increased \$0.1 million, from \$6.3 million at June 30, 2015 to \$6.4 million at June 30, 2016.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Table 7 provides a summary of cash and investments for the Foundation as of June 30, 2016, 2015 and 2014:

| <i>(in thousands)</i> | 2016 | 2015 | 2014 |
|---|-----------------|-----------------|-----------------|
| Cash and cash equivalents | \$ 612 | \$ 311 | \$ 350 |
| Money market and certificates of deposit | 529 | 528 | 526 |
| Equity mutual fund | 1,007 | 986 | 920 |
| | <u>2,148</u> | <u>1,825</u> | <u>1,796</u> |
| Local Agency Investment Funds held by District on behalf of Foundation | 4,276 | 4,456 | 4,445 |
| Total available cash and investments | <u>\$ 6,424</u> | <u>\$ 6,281</u> | <u>\$ 6,241</u> |

Revenue and Expense Analysis for the Foundation – Fiscal Year 2016

Table 8 shows the Foundation's activities and changes in net position for 2016, 2015 and 2014:

| <i>(in thousands)</i> | 2016 | | | 2015 | | | 2014 | | |
|---|---------------|---------------------------|-----------------|---------------|---------------------------|-----------------|---------------|---------------------------|-----------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenues, gains, and support | | | | | | | | | |
| Contributions | \$ 39 | \$ 808 | \$ 847 | \$ 67 | \$ 701 | \$ 768 | \$ 9 | \$ 1,102 | \$ 1,111 |
| Contributed services | 249 | 23 | 272 | 245 | 15 | 260 | 208 | 22 | 230 |
| Investment income | 41 | - | 41 | 33 | - | 33 | 27 | - | 27 |
| Unrealized gain (loss) on investments | 2 | - | 2 | 48 | - | 48 | 169 | - | 169 |
| | <u>331</u> | <u>831</u> | <u>1,162</u> | <u>393</u> | <u>716</u> | <u>1,109</u> | <u>413</u> | <u>1,124</u> | <u>1,537</u> |
| Net assets released from restrictions | 786 | (786) | - | 564 | (564) | - | 901 | (901) | - |
| Total revenues, gains, and support | <u>1,117</u> | <u>45</u> | <u>1,162</u> | <u>957</u> | <u>152</u> | <u>1,109</u> | <u>1,314</u> | <u>223</u> | <u>1,537</u> |
| Expenses | | | | | | | | | |
| General and administrative | 768 | - | 768 | 635 | - | 635 | 706 | - | 706 |
| Donation to Pathways Hospice | - | - | - | 10 | - | 10 | - | - | - |
| Donation to HERS Breast Cancer Foundation | 4 | - | 4 | - | - | - | - | - | - |
| Donation to Washington Township Health Care District | 459 | - | 459 | 168 | - | 168 | 852 | - | 852 |
| Total expenses | <u>1,231</u> | <u>-</u> | <u>1,231</u> | <u>813</u> | <u>-</u> | <u>813</u> | <u>1,558</u> | <u>-</u> | <u>1,558</u> |
| Increase (decrease) in net position | (114) | 45 | (69) | 144 | 152 | 296 | (244) | 223 | (21) |
| Net position | | | | | | | | | |
| Beginning of year | 571 | 6,969 | 7,540 | 427 | 6,817 | 7,244 | 671 | 6,594 | 7,265 |
| Transfers | (60) | 60 | - | - | - | - | - | - | - |
| End of year | <u>\$ 457</u> | <u>\$ 7,014</u> | <u>\$ 7,471</u> | <u>\$ 571</u> | <u>\$ 6,969</u> | <u>\$ 7,540</u> | <u>\$ 427</u> | <u>\$ 6,817</u> | <u>\$ 7,244</u> |

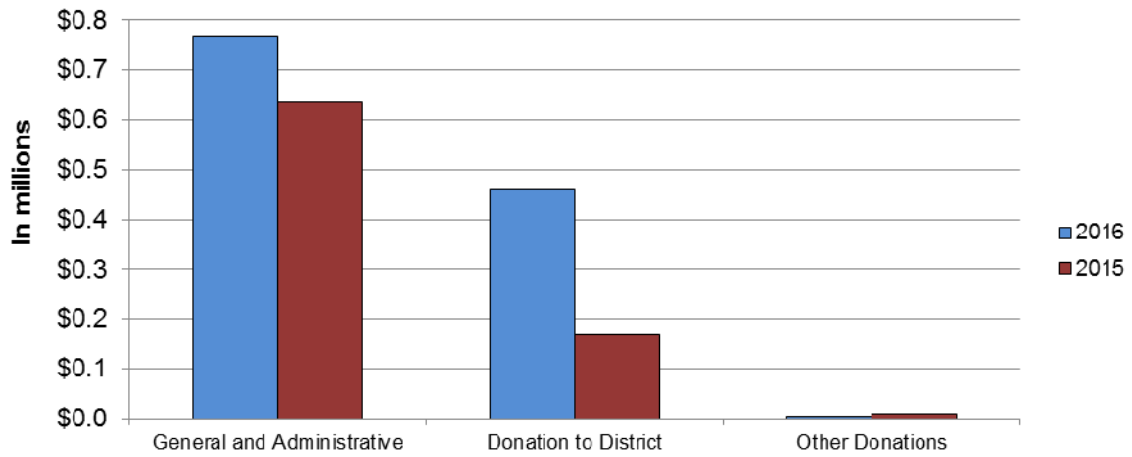
Revenues, Gains and Support

Total revenues, gains and support increased 4.8 percent from \$1.1 million in fiscal year 2015 to \$1.2 million in fiscal year 2016. Contributions of \$0.8 million were consistent in fiscal year 2016 and fiscal year 2015.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Expenses

Total expenses for the Foundation were \$1.2 million and \$0.8 million for fiscal years 2016 and 2015, respectively, as summarized in the graph below:



Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

District Financial Highlights for Fiscal Year 2015

- The District generated improved operating results for the twelve months ended June 30, 2015, recording operating income of \$27.9 million compared with an operating loss of \$13.8 million for fiscal year 2014, an improvement of \$41.7 million. When non-operating revenues, expenses and special items are included, the District realized a net gain of \$27.1 million for the twelve months ended June 30, 2015, compared with a net loss of \$9.9 million for the previous twelve month period, an improvement of \$37.0 million.
- Major items that impacted the District's operating results for the fiscal year ended June 30, 2015 (fiscal year 2015), as compared to those for the fiscal year ended June 30, 2014 (fiscal year 2014), included:
 - Net patient revenues increased \$29.8 million (6.7 percent), due to increased patient activity and a more favorable payor mix. The improvement in payor mix was due to increases in managed care volumes (particularly from preferred provider organizations) and Medi-Cal expansion, which resulted in fewer uninsured patients.
 - Operating expenses decreased \$15.8 million (3.4 percent), with salaries and benefits decreasing by \$22.3 million (8.2 percent) and all other expenses increasing by \$6.5 million (3.2 percent) in total.
- Impact of changes in accounting guidance:

For fiscal year 2015, WHHS adopted the provisions of GASB No. 69, *Government Combinations and Disposals of Government Operations*, as they relate to the amortization of goodwill acquired in a business combination. Prior to fiscal year 2015, WHHS accounted for goodwill under the guidance of Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2012-02, *Intangibles, Goodwill and Other*, with impairment testing performed at least annually.

Governmental Accounting Standards Board (GASB) Statement No. 69 *Government Combinations and Disposals of Government Operations*, was adopted on a prospective basis, consistent with the requirements of the guidance. The impact of the adoption was the addition of \$672,000 in goodwill amortization expense for fiscal year 2015. This amount is included in *Other operating expenses*. Within the Statements of Net Position, for years ended after June 30, 2014, unamortized goodwill is reflected in *Deferred Outflows of Resources – goodwill*; for years ended prior to June 30, 2015, unamortized goodwill is reflected in *Other assets – goodwill*.

Analysis of the District's Net Position – Fiscal Year 2015

- Total assets increased \$16.8 million, from \$876.1 million at June 30, 2014 to \$892.9 million at June 30, 2015. Total cash and investments increased by \$2.9 million, from \$373.0 million to \$375.9 million, while net patient accounts receivable of \$68.0 million at June 30, 2015 increased by \$10.8 million from \$57.2 million at June 30, 2014. Days of gross revenue in accounts receivable were 65.1 at June 30, 2015 as compared to 69 at June 30, 2014. Net capital assets increased \$13.9 million, from \$415.0 million to \$428.9 million.
- Total liabilities increased \$2.3 million, from \$615.3 million at June 30, 2014 to \$617.6 million at June 30, 2015.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

- Total net position of \$295.3 million at June 30, 2015 was \$27.2 million more than the net position of \$268.1 million at June 30, 2014, a direct result of the improved operating performance in fiscal year 2015.

Capital Assets, Net (2015)

Net capital assets increased \$13.9 million, from \$415.0 million at June 30, 2014 to \$428.9 million at June 30, 2015. This increase resulted from \$37.7 million in net capital additions and \$10.6 million in net capitalized interest expense, offset by \$34.5 million in depreciation and \$0.1 million in disposals. The capital additions included \$1.7 million in equipment, building, and land improvements combined with an increase of \$46.6 million in construction in progress related to the new parking garage and Critical Care Pavilion projects. At June 30, 2015, outstanding commitments related to capital projects totaled \$214 million.

Revenue and Expense Analysis for the District – Fiscal Year 2015

Net Patient Service Revenues

In fiscal year 2015, net patient service revenues increased by \$29.8 million or 6.7 percent. The increase represented the net effect of several volume changes, the largest of which included:

Inpatient days, as indicated in the table below, increased by 730 (1.2 percent). The major factor contributing to the increase in patient days was inpatient vascular imaging procedure volume which was up 9 percent, from 3,301 in fiscal year 2014 to 3,595 in fiscal year 2015.

Outpatient surgeries performed at the Hospital increased by 185 (22.7 percent), from 816 in fiscal year 2014 to 1,001 in fiscal year 2015.

Surgeries performed at the Washington Outpatient Surgery Center increased by 203 (2.8 percent) from 7,212 in fiscal year 2014 to 7,415 in fiscal year 2015.

The District receives Federal funds through the Medicare program and State funds through the Medi-Cal program. The District also receives funds through the Alameda County Medi-Cal HMO program.

Inpatient Business Activity

The District's gross inpatient revenue decreased by 0.5 percent, from \$1.486 billion in fiscal year 2014 to \$1.478 billion in fiscal year 2015.

Table 4 presents the patient days for each year and the percentage changes:

| | 2015 Days | 2014 Days | % Change |
|----------------------|---------------|---------------|----------|
| Specialty | | | |
| Medical/surgical | 42,815 | 43,054 | (0.6)% |
| Critical care | 7,865 | 8,359 | (5.9) |
| Special Care Nursery | 1,276 | 392 | 225.5 |
| Pediatrics | 396 | 309 | 28.2 |
| Obstetrics | 5,200 | 4,903 | 6.1 |
| | <u>57,552</u> | <u>57,017</u> | 0.9 |
| Newborn | 3,917 | 3,722 | 5.2 |
| Total patient days | <u>61,469</u> | <u>60,739</u> | 1.2 % |

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Although admissions increased by 617 (5.4 percent) to 12,070 from 11,453, the average length of stay dropped to 4.74 from 4.95 (a 4.2 percent decline), resulting in the District's patient days increasing slightly from 57,017 to 57,552 days with the average daily census, for adults and pediatric patients, increasing from 156.2 patients to 157.7 patients.

The overall case mix index for the District, which is a measure of patient acuity, decreased from 1.530 in fiscal year 2014 to 1.472 in fiscal year 2015. The Medicare case mix index for the same period also decreased from 1.760 to 1.684.

Outpatient Business Activity

The District's gross outpatient revenue increased 7.3 percent, from \$607.5 million in fiscal year 2014 to \$652.1 million in fiscal year 2015. The increased gross revenues were due primarily to the increase in outpatient surgeries, as noted above, in addition to a 6.3 percent increase in outpatient vascular imaging procedures (from 3,687 in 2014 to 3,918 in 2015).

Emergency visits of 54,262 for fiscal year 2015 were 3,234 visits higher (6.3 percent) than the prior year visits of 51,028. Non-emergency outpatient visits of 65,883 were 2,625 visits (3.8 percent) lower than those for fiscal year 2014 (68,508).

Deductions from Revenue

Contractual allowance adjustments (expressed as a percentage of gross revenues) were 76.11 percent and 75.47 percent for fiscal year 2015 and 2014, respectively. The increase resulted primarily from an increase in the proportion of patients covered by government payors, in particular Medi-Cal, compounded by Medicare mandated payment reductions. The increase in Medi-Cal patients is attributed to the expansion of Medi-Cal coverage through the Affordable Care Act.

Charity Care

The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Charity allowances are based upon the customary charges for the services provided under this program. The District recorded \$8.2 million and \$16.4 million in charges foregone related to charity care for patient services during fiscal years 2015 and 2014, respectively. Private pay revenues, which are the primary driver of charity care allowances, dropped by \$35.6 million (52.7 percent) from fiscal year 2014 to fiscal year 2015. The reduction in private pay revenues is attributed to the availability of coverage under the Affordable Care Act and the expansion of Medi-Cal coverage.

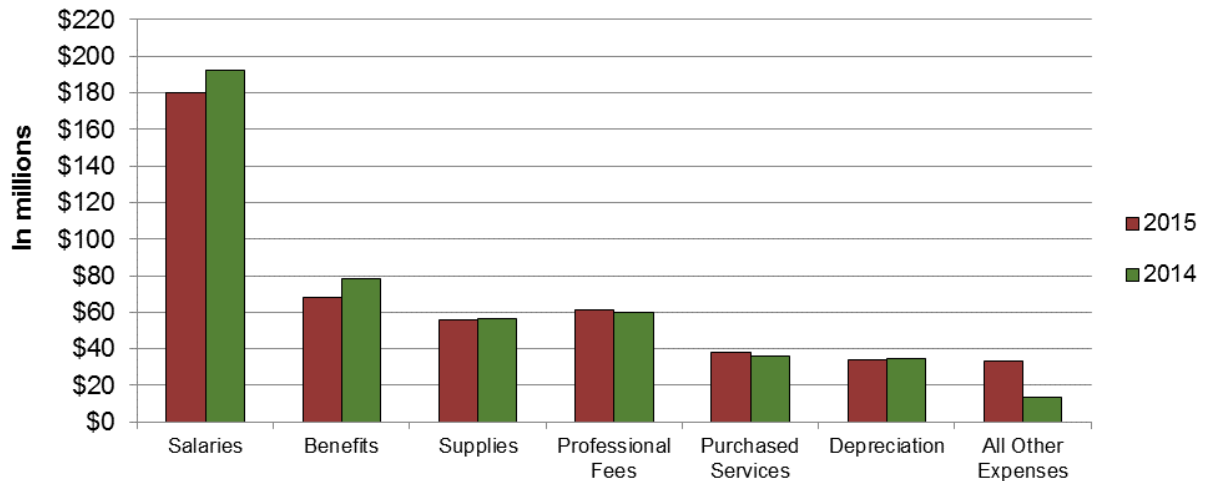
Provision for Bad Debt

The provisions for bad debt (expressed as a percentage of gross revenues) were 1.47 percent in fiscal year 2015, compared to 3.07 percent in fiscal year 2014. As discussed above, there was a significant reduction in private pay revenues in fiscal year 2015. In addition to being the primary driver of charity care allowances, private pay revenues also account for the majority of bad debt write-offs, therefore, the reduction in private pay revenues also results in lower bad debt expenses.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Operating Expenses

Total operating expenses were \$455.0 million and \$470.8 million for fiscal years 2015 and 2014, respectively, as summarized in the graph below:



Total operating expenses decreased by \$15.8 million (3.4 percent) from 2014 to 2015, with the most significant reductions attributable to wage-related expenses.

Salaries and Wages

- The alignment of staffing with volumes resulted in an \$11.9 million reduction in salary expenses (6.2 percent) between fiscal year 2014 and fiscal year 2015. In July 2013, the Hospital had 1,577 FTEs. The Hospital's FTEs for fiscal year 2015 were 1,335, a decrease of more than 200 FTEs over a two-year period. The majority of staffing reductions were achieved through attrition and voluntary retirements. Total FTEs decreased by 121 to 1,591 between June 30, 2014 and June 30, 2015, a reduction of 7.7 percent.
- Benefits expense was reduced by \$10.5 million. Employee health and welfare and pension expenses were the two largest contributors to the benefits cost reduction and were primarily by-products of the staffing reductions.

Other Operating Expenses

- Despite the increase in inpatient days, supplies expense decreased \$0.6 million (1.1 percent) in fiscal year 2015. Depreciation also decreased \$0.7 million (2.0 percent). Professional fees and purchased services increased by \$2.0 million each (increases of 3.3 and 5.5 percent, respectively), in fiscal year 2015. Other expenses increased in fiscal year 2015 by \$3.9 million due to non-recurring items.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Non-Operating Income/Expense

The most significant changes in non-operating activity for fiscal year 2015 were the following items:

- Investment income, including realized gains, of \$2.5 million for fiscal year 2015 was \$1.1 million less than for fiscal year 2014 (\$3.6 million).
- The fair value of investments decreased by \$1.0 million between June 30, 2014 and June 30, 2015.
- Property tax revenues of \$9.9 million for fiscal year 2015 were \$2.7 million less than for fiscal year 2014 (\$12.6 million).
- Bond issuance costs of \$1.2 million were incurred in November 2013; no such costs were incurred in fiscal year 2015.

Washington Hospital Healthcare Foundation

Foundation Financial Highlights for Fiscal Year 2015

- Total assets of \$7.5 million at June 30, 2015 decreased \$0.1 million from \$7.6 million at June 30, 2014. Total cash and investments increased \$0.1 million, from \$6.2 million to \$6.3 million, while net contributions receivable decreased \$0.1 million from \$1.3 million to \$1.2 million.
- Net assets decreased \$0.1 million during 2015, from \$7.6 million to \$7.5 million.

Analysis of the Foundation's Net Assets – Fiscal Year 2015

Total Foundation assets of \$7.5 million at June 30, 2015, decreased by \$0.1 million from June 30, 2014. Total Foundation liabilities decreased by \$0.4 million, from \$0.4 million at June 30, 2014 to zero as of June 30, 2015 and the Foundation's net assets decreased by \$0.1 million, from \$7.6 million at June 30, 2014 to \$7.5 million at June 30, 2015.

In fiscal year 2015 the Foundation's cash and investment position, including State of California Local Agency Investment Fund (LAIF) investments held by the District on behalf of the Foundation increased \$0.1 million, from \$6.2 million at June 30, 2014 to \$6.3 million at June 30, 2015.

Revenue and Expense Analysis for the Foundation – Fiscal Year 2015

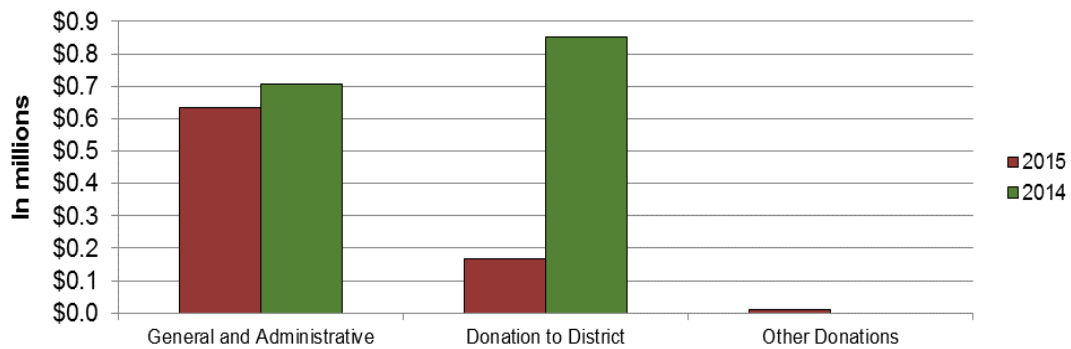
Revenues, Gains and Support

Total revenues, gains and support decreased 27.8 percent from \$1.5 million in fiscal year 2014 to \$1.1 million in fiscal year 2015. Contributions decreased \$0.3 million from \$1.1 million in fiscal year 2014 to \$0.8 million in fiscal year 2015.

Washington Township Health Care District Management's Discussion and Analysis Years Ended June 30, 2016 and 2015 (unaudited)

Expenses

Total expenses for the Foundation were \$0.8 million and \$1.6 million for fiscal years 2015 and 2014, respectively, as summarized in the graph below:



Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the District, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the District expects or anticipates will or may occur in the future, contain forward-looking information.

Washington Township Health Care District

Statements of Net Position

June 30, 2016 and 2015

| | District | | Foundation | |
|--|------------------|----------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 43,485,000 | \$ 23,881,000 | \$ 612,000 | \$ 311,000 |
| Short-term investments | 34,796,000 | 19,335,000 | 1,432,000 | 1,514,000 |
| Short-term investments held by District on behalf of Foundation | - | - | 4,276,000 | 4,456,000 |
| Patient accounts receivable, less allowance for estimated uncollectibles of \$21,306,000 and \$19,998,000 in 2016 and 2015, respectively | 68,920,000 | 68,001,000 | - | - |
| Contributions receivable, net, due in less than 1 year | - | - | 158,000 | 122,000 |
| Due from third party payors | 3,944,000 | 1,900,000 | - | - |
| Supplies | 3,046,000 | 3,271,000 | - | - |
| Prepaid expenses and other | 11,454,000 | 7,113,000 | 1,000 | 76,000 |
| Total current assets | 165,645,000 | 123,501,000 | 6,479,000 | 6,479,000 |
| Long-term investment and restricted funds | | | | |
| Board-designated for capital, debt and workers' compensation | 175,065,000 | 187,068,000 | - | - |
| Held by trustee | 209,520,000 | 142,806,000 | - | - |
| Restricted funds | 2,801,000 | 2,801,000 | - | - |
| Unrestricted | - | - | 104,000 | - |
| Capital assets, net | 517,761,000 | 428,860,000 | - | - |
| Other assets | | | | |
| Contributions receivable, net, due in more than 1 year | - | - | 985,000 | 1,061,000 |
| Other noncurrent assets | 8,614,000 | 7,859,000 | - | - |
| Total assets | 1,079,406,000 | 892,895,000 | 7,568,000 | 7,540,000 |
| Deferred outflows of resources | | | | |
| Deferred outflows of resources - goodwill | 6,050,000 | 6,722,000 | - | - |
| Deferred outflows of resources - pension | 27,061,000 | 24,472,000 | - | - |
| Total deferred outflows | 33,111,000 | 31,194,000 | - | - |
| Total assets and deferred outflows of resources | \$ 1,112,517,000 | \$ 924,089,000 | \$ 7,568,000 | \$ 7,540,000 |
| Liabilities and Net Assets | | | | |
| Current liabilities | | | | |
| Current portion of long-term debt | \$ 5,144,000 | \$ 6,081,000 | \$ - | \$ - |
| Accounts payable and accrued expenses | 47,203,000 | 31,070,000 | 97,000 | - |
| Due to Foundation | 4,276,000 | 4,456,000 | - | - |
| Due to third party payors | 12,826,000 | 12,747,000 | - | - |
| Accrued liabilities | | | | |
| Payroll related | 15,286,000 | 8,026,000 | - | - |
| Vacation | 14,953,000 | 14,631,000 | - | - |
| Health benefits | 3,227,000 | 3,263,000 | - | - |
| Interest | 11,321,000 | 9,872,000 | - | - |
| Other | 16,089,000 | 11,948,000 | - | - |
| Total current liabilities | 130,325,000 | 102,094,000 | 97,000 | - |
| Long-term liabilities | | | | |
| Workers' compensation claims | 7,034,000 | 6,441,000 | - | - |
| Net pension liability | 52,960,000 | 66,440,000 | - | - |
| Post-retirement employee medical benefits | 38,791,000 | 36,523,000 | - | - |
| Long-term debt, net of current maturities | 204,087,000 | 208,782,000 | - | - |
| Long-term debt, general obligation bonds | 342,546,000 | 197,346,000 | - | - |
| Total long-term liabilities | 645,418,000 | 515,532,000 | - | - |
| Total liabilities | 775,743,000 | 617,626,000 | 97,000 | - |
| Deferred Inflows of resources - pension | 16,614,000 | 11,199,000 | - | - |
| Net position | | | | |
| Net investment in capital assets | 175,504,000 | 159,456,000 | - | - |
| Restricted - expendable | 2,801,000 | 2,801,000 | 7,074,000 | 6,969,000 |
| Restricted for minority interest | 4,783,000 | 5,488,000 | - | - |
| Unrestricted | 137,072,000 | 127,519,000 | 397,000 | 571,000 |
| Total net position | 320,160,000 | 295,264,000 | 7,471,000 | 7,540,000 |
| Total liabilities, deferred inflows of resources and net position | \$ 1,112,517,000 | \$ 924,089,000 | \$ 7,568,000 | \$ 7,540,000 |

The accompanying notes are an integral part of these financial statements.

Washington Township Health Care District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

| | District | | Foundation | |
|---|-----------------------|-----------------------|---------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating revenues | | | | |
| Net patient service revenues | \$ 473,131,000 | \$ 475,739,000 | \$ - | \$ - |
| Other | 9,527,000 | 6,975,000 | - | - |
| Contributions | 459,000 | 168,000 | 847,000 | 768,000 |
| Contributed services | - | - | 272,000 | 260,000 |
| Total operating revenues | <u>483,117,000</u> | <u>482,882,000</u> | <u>1,119,000</u> | <u>1,028,000</u> |
| Operating expenses | | | | |
| Salaries and wages | 193,549,000 | 180,310,000 | - | - |
| Employee benefits | 69,380,000 | 67,872,000 | - | - |
| Supplies | 56,005,000 | 55,602,000 | - | - |
| Professional fees | 62,654,000 | 61,556,000 | - | - |
| Purchased services | 35,847,000 | 38,229,000 | - | - |
| Depreciation | 34,355,000 | 33,971,000 | - | - |
| Insurance | 1,586,000 | 1,895,000 | - | - |
| Donations | - | - | 463,000 | 178,000 |
| Other operating expenses | 12,644,000 | 15,554,000 | 768,000 | 635,000 |
| Total operating expenses | <u>466,020,000</u> | <u>454,989,000</u> | <u>1,231,000</u> | <u>813,000</u> |
| Operating income (loss) | <u>17,097,000</u> | <u>27,893,000</u> | <u>(112,000)</u> | <u>215,000</u> |
| Nonoperating revenues and expenses | | | | |
| Investment income | 2,919,000 | 2,615,000 | 41,000 | 33,000 |
| Net increase (decrease) in the fair value of investments | 948,000 | (952,000) | 2,000 | 48,000 |
| Interest expense, including amortization of premiums and discounts on bonds payable | (9,547,000) | (10,709,000) | - | - |
| Property tax revenue | 15,789,000 | 9,935,000 | - | - |
| Bond issuance costs | (1,680,000) | - | - | - |
| Other nonoperating income | 540,000 | 143,000 | - | - |
| Total nonoperating revenues and expenses | <u>8,969,000</u> | <u>1,032,000</u> | <u>43,000</u> | <u>81,000</u> |
| Increase (decrease) in net position before other changes | 26,066,000 | 28,925,000 | (69,000) | 296,000 |
| Minority interest - additional contributions from | - | 151,000 | - | - |
| Minority interest - distributions to | (1,170,000) | (1,944,000) | - | - |
| Increase (decrease) in net position after other changes | 24,896,000 | 27,132,000 | (69,000) | 296,000 |
| Total net position | | | | |
| Beginning of year | <u>295,264,000</u> | <u>268,132,000</u> | <u>7,540,000</u> | <u>7,244,000</u> |
| End of year | <u>\$ 320,160,000</u> | <u>\$ 295,264,000</u> | <u>\$ 7,471,000</u> | <u>\$ 7,540,000</u> |

The accompanying notes are an integral part of these financial statements.

Washington Township Health Care District

Statements of Cash Flows

June 30, 2016 and 2015

| | District | | Foundation | |
|--|----------------|----------------|--------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Cash flows from operating activities | | | | |
| Cash received from patient service activities | \$ 472,212,000 | \$ 464,948,000 | \$ - | \$ - |
| Other cash receipts | 9,986,000 | 7,143,000 | 887,000 | 892,000 |
| Cash payments to suppliers | (173,416,000) | (156,812,000) | (324,000) | (381,000) |
| Cash payments to employees and employee benefit programs | (262,504,000) | (255,648,000) | - | - |
| Net cash provided by (used in) operating activities | 46,278,000 | 59,631,000 | 563,000 | 511,000 |
| Cash flows from noncapital financing activities | | | | |
| Donation from Foundation to District | 459,000 | 541,000 | (459,000) | (541,000) |
| Other donations | - | - | (4,000) | (10,000) |
| Net cash provided by (used in) noncapital financing activities | 459,000 | 541,000 | (463,000) | (551,000) |
| Cash flows from capital and related financing activities | | | | |
| Purchases of capital assets | (93,347,000) | (36,344,000) | - | - |
| Principal paid on debt | (74,296,000) | (10,291,000) | - | - |
| Interest paid on debt | (23,190,000) | (21,681,000) | - | - |
| Sale of net assets to minority shareholders in Washington Outpatient Surgery Center, LLC | - | 151,000 | - | - |
| Net assets distributed to minority shareholders in Washington Outpatient Surgery Center, LLC | (1,170,000) | (1,944,000) | - | - |
| Proceeds from debt issuance, net of issuance costs | 212,562,000 | 262,000 | - | - |
| Proceeds from property taxes levied by the County | 17,811,000 | 10,306,000 | - | - |
| Net cash provided by (used in) capital and related financing activities | 38,370,000 | (59,541,000) | - | - |
| Cash flows from investing activities | | | | |
| Purchases of investments | (742,237,000) | (81,474,000) | (36,000) | (33,000) |
| Sales of investments | 673,013,000 | 82,044,000 | 196,000 | - |
| Investment income | 2,757,000 | 2,676,000 | 41,000 | 34,000 |
| Other nonoperating income received | 964,000 | 505,000 | - | - |
| Net cash provided by (used in) investing activities | (65,503,000) | 3,751,000 | 201,000 | 1,000 |
| Net increase (decrease) in cash and cash equivalents | 19,604,000 | 4,382,000 | 301,000 | (39,000) |
| Cash and cash equivalents | | | | |
| Beginning of year | 23,881,000 | 19,499,000 | 311,000 | 350,000 |
| End of year | \$ 43,485,000 | \$ 23,881,000 | \$ 612,000 | \$ 311,000 |
| Reconciliation of operating income to net cash provided by operating activities | | | | |
| Operating income (loss) | \$ 17,097,000 | \$ 27,893,000 | \$ (112,000) | \$ 215,000 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | | |
| Depreciation | 34,355,000 | 33,971,000 | - | - |
| Loss on disposal of fixed assets | - | 59,000 | - | - |
| Provision for doubtful accounts | 41,817,000 | 39,450,000 | - | - |
| Amortization of goodwill | 672,000 | 672,000 | - | - |
| Pension funding | (22,100,000) | (22,700,000) | - | - |
| Net change in deferred outflows and inflows | (2,174,000) | (19,347,000) | - | - |
| Donations | - | - | 463,000 | 551,000 |
| Changes in assets and liabilities | | | | |
| Accounts receivables | (42,736,000) | (50,241,000) | 40,000 | 124,000 |
| Supplies, prepaid expenses, and other current assets | (3,954,000) | 1,095,000 | 75,000 | (6,000) |
| Other assets | (755,000) | 275,000 | - | - |
| Due to Foundation | (180,000) | 11,000 | - | - |
| Due from/to third party payors | (1,965,000) | 9,207,000 | - | - |
| Accounts payable and accrued expenses | 514,000 | 5,163,000 | 97,000 | (373,000) |
| Payroll, vacation, and health accrued liabilities | 7,546,000 | 420,000 | - | - |
| Other liabilities | 18,141,000 | 33,703,000 | - | - |
| Net cash provided by (used in) operating activities | \$ 46,278,000 | \$ 59,631,000 | \$ 563,000 | \$ 511,000 |
| Noncash transactions | | | | |
| Capitalized interest | \$ 14,706,000 | \$ 10,605,000 | \$ - | \$ - |
| Accounts payable and accrued expenses for property and equipment purchases | 24,364,000 | 8,745,000 | - | - |
| Contributed services | - | - | 272,000 | 260,000 |

The accompanying notes are an integral part of these financial statements.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

Organization

District

Washington Township Health Care District (the District) is a political subdivision of the State of California organized under the Local Health Care District Law, as set forth in the Health and Safety Code of the State of California, and is considered a Local Government Agency (Local Agency). It is exempt from federal and state income taxes. The District's mission is to provide broad healthcare services to its residents. The District's boundaries encompass an area of approximately 124 square miles in southern Alameda County. The District operates Washington Hospital (the Hospital), a 341-bed licensed acute care hospital located in Fremont, California. Included within the District boundaries are the cities of Fremont, Newark and Union City, the southern portions of the city of Hayward and the unincorporated area known as Sunol.

The District is the sole corporate member of Washington Township Hospital Development Corporation (DEVCO). DEVCO was formed in 1984 to train medical personnel, develop medical treatment programs, perform medical research and development, and render medical services to the general public. The DEVCO Board is appointed by the District's Board. DEVCO contractually operates a radiation oncology center and also operates an outpatient rehabilitation center and an urgent care clinic. On July 1, 2010, DEVCO purchased a controlling interest in the Washington Outpatient Surgery Center, LLC (WOSC) and has blended its financial statements since this date. DEVCO is considered a component unit of the District, and is blended in the District's financial statements based on the extent of District management's involvement in, and oversight of, DEVCO's operations and financial activity.

DEVCO is the sole corporate member of Washington Township Medical Foundation (WTMF). WTMF was formed on November 1, 2010 to operate a multi-specialty medical clinic under the applicable provisions of the California Health and Safety Code. WTMF is considered a component unit of the District, and is blended in the District's financial statements based on the extent of District and DEVCO management's involvement and oversight of WTMF's operations and financial activity.

The accompanying financial statements include the accounts and transactions of the Hospital, DEVCO and WTMF. All significant inter-company accounts and transactions have been eliminated in the financial statements.

Foundation

Washington Hospital Healthcare Foundation (the Foundation), founded in 1982, is a California non-profit corporation exempt from federal and state income tax. The Foundation was established to raise funds for the operation, maintenance, and modernization of the facilities of the District, its related corporations, and sponsored programs which benefit the District. Accordingly, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. Complete financial statements for the Foundation can be obtained from the Foundation at 2000 Mowry Avenue, Fremont, CA 94538.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Accounting Standards

District

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the "economic resources measurement focus" and the accrual basis of accounting. In addition, these statements follow generally accepted accounting principles applicable to the health care industry, which are included in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, to the extent that these principles do not contradict GASB standards.

Foundation

As a private non-profit organization, the Foundation reports under FASB standards, including generally accepted accounting principles for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Other than minor nomenclature changes, no modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to patient accounts receivable allowances, amounts due to third-party payors, self-insurance liabilities and employee benefit costs. Actual results may differ from those estimates.

Proprietary Fund Accounting

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and financial statements are prepared using the economic resources measurement focus.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Due to the District's status as a Local Agency, amounts in the District's deposit accounts are considered to be public funds, which, by State statute, are required to be collateralized, with pledged securities, by the depository bank. The value of the pledged securities, in addition to the deposit insurance provided by the Federal Deposit Insurance Corporation, equals or exceeds the District's carrying value. Collateral is held by the depository bank's trust department in the name of the District.

Contributed Services

Certain general and administrative support to the Foundation is provided by the District. The value of the services is recorded as a contribution in the Foundation and an equivalent amount recorded as other operating expense in the District.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Contributions Received

Contributions are recognized by the Foundation as revenues in the period received. Contributions with donor-imposed restrictions that are met in the same year as received are reported as temporarily restricted and then reclassified from temporarily restricted to unrestricted net assets. Contributions are derived primarily from donors in Northern California.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded in contributions at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using rates representative of market participants' perspectives. Among other things, this takes into consideration when the promise to give is expected to be collected, past collection experience, the Foundation's policy on enforcing promises to give, and creditworthiness of the donor. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as revenue until the conditions are substantially met.

Donations Granted

Donations granted by the Foundation are recognized as expenses in the period made and as decreases of assets or increases of liabilities, depending on the form of benefits given.

Supplies

The inventory of supplies is valued on a first-in, first-out basis.

Long-Term Investment and Restricted Funds

Long-term investments and restricted funds are invested in corporate debt securities, United States Treasury bonds and government agency debt issues. These investments are measured at fair value, which is determined based upon quoted market prices. These investments are exposed to various risks, such as interest rate, market and credit risks. Investments set aside for future capital improvements, or for funding insurance are considered to be Board-designated funds. These and other investments, whose use has been limited by financial arrangements, are classified as long- or short-term investment funds. Investments whose use by the District has been limited by Foundation donors to a specific time period or purpose are classified as restricted funds.

Capital Assets

Capital assets are recorded at cost. All assets with an original cost of \$500 or more are considered capital assets. Depreciation is provided over the useful life of each class of depreciable assets and is computed using the straight-line method. Expenditures that substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred.

Depreciable lives by property classification are as follows:

| | |
|-------------------|-------------|
| Land improvements | 2-25 years |
| Buildings | 10-40 years |
| Equipment | 3-20 years |

Interest income and cost incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of acquiring those assets.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Business Combinations and Goodwill

The District adopted Governmental Accounting Standards Board Statement No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations* in fiscal year 2015. In connection with this adoption, the goodwill associated with the July 2010 purchase of a controlling interest in the WOSC was assigned a life of fifteen years. The impact of the adoption was the addition of \$672,000 in goodwill amortization expense for fiscal year 2015. This amount and the related annual amortization expense for fiscal year 2016 (\$0.7 million) is included in *Other operating expenses*.

Within the Statements of Net Position, unamortized goodwill is reflected in *Deferred outflows of resources – goodwill*.

There were no new business combinations in fiscal year 2016.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident claims; and medical malpractice. The District utilizes both commercial insurance and self-insurance for claims arising from such matters. The District is self-insured for workers' compensation claims, health, vision and dental claims, and is self-insured for amounts in excess of specified retention amounts for hospital professional and general liability (including directors' and officers') claims.

Self-Insurance Plans

The District is self-insured for workers' compensation benefits for employees. An actuarial estimate of future claims payments are accrued as a long-term liability. This estimate is based on the expected, undiscounted payments. Assets have been set aside for future payments of workers' compensation benefits, related expense, and the cost of administering the plan. These assets are classified as long-term investment funds in the accompanying financial statements.

The District provides eligible employees with health, vision and dental benefits through self-insured programs administered by Blue Shield, Vision Service Plan and Delta Dental, respectively. The accrued liabilities for claims arising from these programs are estimated based upon annual actuarial reviews and are recorded at the expected, undiscounted amounts.

The District is a member of and participates in a group professional and general liability (including directors and officers coverage) group insurance program through BETA Healthcare Group (BETA). BETA is a joint powers authority whose members are district hospitals and county facilities in California. Amounts paid to BETA by each member represent actuarially determined assessments of claims payable, and estimated incurred, but not reported, claims that are adjusted periodically based on the claims experience for each member hospital. Claims in excess of specified retention amounts are the responsibility of individual program participants.

The District has claims-made coverage for excess claim amounts, up to \$40 million per year, for professional and general liability through BETA. The District converted coverage for these liabilities from occurrence-based to "claims-made" on July 1, 2004. The District records actuarially-determined liabilities related to this coverage for 1) tail liability (based on claims associated with occurrences subsequent to July 1, 2004), 2) unreported claims from occurrences prior to July 1, 2004 (subject to the deductible limit) and 3) deductible amounts for currently open claims. The accrued liabilities are recorded at the expected, undiscounted amounts.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Net Position

District

Net position is composed of the following categories:

Unrestricted

Unrestricted net position that is neither restricted nor invested in capital assets, net of related debt. Unrestricted net position may be designated for specific purposes by management or the Board of Directors.

Restricted for Minority Interest

Net position of a legally separate organization attributable to other participants. In July 2010, the District acquired the Washington Outpatient Surgery Center and concurrently sold a minority interest in the entity to area physicians. No gain on sale was recognized upon the sale of the minority interest. During 2016, the Washington Outpatient Surgery Center earned operating income of approximately \$0.5 million. The District distributed a portion of the minority interest's share of 2016 earnings in fiscal year 2016.

Net Investment in Capital Assets

Capital assets, net of accumulated depreciation reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted

The District classifies net position resulting from transactions with purpose restrictions as restricted net position until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Expendable

Net position, whose use by the District is subject to externally-imposed restrictions that can be fulfilled by actions of the District, pursuant to those restrictions or that expire by the passage of time.

Nonexpendable

Net position subject to externally-imposed restrictions that they be retained in perpetuity by the District. There were no such assets as of June 30, 2016 and 2015.

Foundation

The net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted

Unrestricted net assets represent those resources of the Foundation that are not subject to donor-imposed stipulations. The only limits on unrestricted net position are broad limits resulting from the nature of the Foundation and the purposes specified in its articles of incorporation or bylaws, and limits resulting from contractual agreements, if any.

Temporarily Restricted

Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those stipulations or by the passage of time. For financial statement presentation, these are labeled as "Restricted-expendable" in the accompanying financial statements.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Concentrations of Credit Risk

District

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash equivalents and patient accounts receivable.

The District invests its cash and cash equivalents in highly rated financial instruments including insured deposits and the Local Agency Investment Fund (LAIF). Other than LAIF funds, there is no significant concentration in one investment or group of similar investments.

The District's concentration of credit risk relating to patient accounts receivable is limited by the diversity and number of the District's patients and payors. Patient accounts receivable consists of amounts due from governmental programs, commercial insurance companies, private pay patients and other group insurance programs. Reimbursements from the Medicare program accounted for approximately 23 percent and 26 percent of the District's net patient service revenues for the fiscal years ended June 30, 2016 and 2015, respectively. Medicare is the only payor that represents more than 10 percent of the District's net patient accounts receivable as of June 30, 2016. The District maintains an allowance for doubtful accounts based on the expected collectability of patient accounts receivable.

Foundation

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash equivalents and pledged contributions receivable.

The Foundation invests its cash and cash equivalents in highly rated financial instruments including insured deposits. The District holds a portion of the Foundation assets in the District's LAIF account.

The Foundation maintains an allowance for uncollectible pledges based on the expected collectability of pledges. The Foundation had 90 donor pledges, with the largest individual pledge representing approximately 79.3 percent of the total, as of June 30, 2016. The Foundation had 120 donor pledges, with the largest individual pledge representing approximately 76.5 percent of the total, as of June 30, 2015.

Statements of Revenues, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions, which include investment income, changes in unrealized gains and losses, interest expense, rental income and property tax revenues are reported as non-operating revenues and expenses.

Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Reimbursement from third-party payors under various methodologies is based on the level of care provided. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Retroactive adjustments, related to prior years, including adjustments to prior year estimates, increased net patient service revenues approximately \$1.6 million in fiscal year 2016 and approximately \$10.4 million in fiscal year 2015.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Laws and regulations governing the Medicare and Medi-Cal programs are complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change.

Charity Care

The District provides care without charge to all patients who meet certain criteria under its Charity Care Policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenues. The District subsidizes the cost of treating patients who are on governmental assistance, where reimbursement is below cost.

Other Revenues

Other revenues include revenues from cafeteria, laundry, dietary and certain DEVCO operations. Other revenues for fiscal year 2016 also include approximately \$1.4 million in incentive funding, from Medi-Cal and Medicare, based on demonstrated Meaningful Use of an Electronic Health Record (Meaningful Use). No Meaningful Use revenues were recognized in fiscal year 2015 due to timing related to the attestation process.

Interest Income and Expense

Interest expense on debt issued for construction projects and income earned on the funds held pending use are capitalized until the projects are placed in service and are depreciated over the estimated useful life of the asset.

Impairment of Long-Lived Assets

The District is required to evaluate prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. Based on management's evaluation, there were no impairment losses in fiscal years 2016 and 2015.

Income Taxes

District

The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

Foundation

The Foundation is a California non-profit corporation; exempt from federal and state income tax as a 501(c)(3) organization.

Property Tax Revenue

The District receives property taxes that are assessed by Alameda County for the service of the general obligation bond principal and interest payments. The District records these revenues as non-operating income.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

New Accounting Pronouncements

District

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for financial reporting periods beginning after June 15, 2015, with earlier adoption encouraged. This Statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments, and for disclosures related to all fair value measurements. The District's adoption of this standard resulted in additional disclosures for fiscal years 2016 and 2015 (see Note 7), but did not otherwise impact the amounts presented in the financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2015. This guidance is not applicable for the District.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*, effective for fiscal years beginning after June 15, 2017, with earlier adoption encouraged. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Management is currently evaluating the effect of this standard on the financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for financial statements for periods beginning after December 15, 2015, with earlier adoption encouraged. The objective of this Statement is to provide financial statement users with more consistent and comprehensive information about the nature and magnitude of tax abatements. Management is currently evaluating the effect of this standard on the financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* effective for financial statements for periods beginning after December 15, 2015, with earlier adoption encouraged. This guidance is not applicable for the District.

Also in December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* effective, in part, for financial statements for periods beginning after June 15, 2015, with certain provisions effective for financial statements for periods beginning after December 15, 2015. Earlier application of the requirements is encouraged. This guidance is not applicable for the District.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units, An Amendment of GASB Statement No. 14* effective for financial statements for periods beginning after June 15, 2016, with earlier adoption encouraged. Management is currently evaluating the effect of this standard on the financial statements.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This guidance is not applicable for the District effective for financial statements for periods beginning after December 15, 2016, with earlier adoption encouraged. This guidance is not applicable for the District.

Also in March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73* effective for financial statements for periods beginning after June 15, 2016, with earlier adoption encouraged. Management is currently evaluating the effect of this standard on the financial statements.

Foundation

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, effective for periods beginning after December 15, 2017. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. In addition, ASU 2014-09 will require new and enhanced disclosures. Management is currently evaluating the effect of this standard on the financial statements.

In August 2016, the FASB issued ASU 2016-04, *Presentation of Financial Statements for Not-for-Profit Entities*, effective for periods beginning after December 15, 2017. ASU 2016-04 revises the not-for-profit financial reporting model, streamlining and clarifying net asset reporting, providing flexibility regarding the definitions of reported operating subtotals, and imposing new reporting requirements related to expenses. Management is currently evaluating the effect of this standard on the financial statements.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

2. Patient Revenues

Patient revenues consist of the following:

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Gross patient charges | | |
| Routine inpatient services | \$ 391,159,000 | \$ 387,575,000 |
| Ancillary inpatient services | 1,102,291,000 | 1,090,882,000 |
| Outpatient services | <u>624,851,000</u> | <u>652,115,000</u> |
| | 2,118,301,000 | 2,130,572,000 |
| Less: Charity care | <u>(5,221,000)</u> | <u>(8,160,000)</u> |
| Gross patient service revenues | <u>2,113,080,000</u> | <u>2,122,412,000</u> |
| Deductions from gross patient service revenues | | |
| Contractual allowances for statutory and negotiated rates | 1,598,132,000 | 1,615,383,000 |
| Provision for doubtful accounts | <u>41,817,000</u> | <u>31,290,000</u> |
| | <u>1,639,949,000</u> | <u>1,646,673,000</u> |
| Net patient service revenues | <u>\$ 473,131,000</u> | <u>\$ 475,739,000</u> |

The District has agreements with third-party payors that provide for payments to the District at amounts that differ from established rates. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District also receives Medicare Disproportionate Share (DSH) reimbursements for services provided to a disproportionate percentage of low-income patients. The Medicare program pays hospitals for outpatient services under the prospective payment system known as Ambulatory Payment Classifications (APCs). Under APCs, the District is paid a prospectively determined rate based on the diagnosis and procedures provided to patients. Outpatient physical therapy, speech therapy, occupational therapy, and laboratory are paid based upon prospectively determined fee schedules. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been finalized for all fiscal years through June 30, 2013.

Services provided to Medi-Cal program beneficiaries were reimbursed at negotiated per-diem rates for inpatient services provided through June 30, 2014. Effective July 1, 2014, an All Patient Refined Diagnosis Related Group (APR-DRG) payment methodology replaced the per-diem reimbursement model. Outpatient services to Medi-Cal beneficiaries are reimbursed according to a State fee schedule.

The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The methods for payment under these agreements include prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates. The District receives reimbursement from various payors under the State of California Division of Workers' Compensation program, based upon a pre-determined fee schedule.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances, which represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Receivables for patient care are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. Account balances are written off against the allowance when management determines it is probable the receivable will not be recovered. The use of historical collection and payor reimbursement experience is an integral part of the estimation of reserves for uncollectible accounts. Revisions in estimated reserves for uncollectible accounts are recorded as an adjustment to the provision for bad debts.

At the current time there is uncertainty about reimbursements from government programs. The Centers for Medicare and Medicaid Services have proposed reductions in rates, which would result in a decrease in Medicare reimbursements. The State budget contains proposed health care budget cuts that may affect reimbursements for non-contracted Medi-Cal services. The ultimate outcome of these proposals and other market changes cannot presently be determined.

State of California Assembly Bill ("AB") 1383 of 2009, as amended by AB 1653 (Statutes of 2010) established a series of Medicaid supplemental payments funded through a "Quality Assurance Fee" and a "Hospital Fee Program", which are imposed on certain California hospitals. The original effective date of the Hospital Fee Program was April 1, 2009 through December 31, 2010 and is predicated, in part, on the enhanced Federal Medicaid Assistance Percentage ("FMAP") contained in the American Reinvestment and Recovery Act ("ARRA"). The current Hospital Fee Program relates to the period from January 1, 2014 through December 31, 2016. The Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The District, designated as a public hospital, is exempt from paying the Quality Assurance Fee; however, the District receives supplemental payments under the Hospital Fee Program. For fiscal year 2016, the District recognized \$2.2 million. No amount was recognized for the Hospital Fee Program in fiscal year 2015. Hospital Fee Program revenues have been reported as net patient service revenues.

Non-Designated Public Hospitals (NDPHs), including the District, were authorized, in 2011's AB 113, to use intergovernmental transfers (IGTs) to obtain federal supplemental funds for Medi-Cal inpatient fee-for-service. The IGTs are used to bring NDPHs, in the aggregate, up to their upper payment limit (UPL). The UPL is the federal maximum available under the Medicaid program, as calculated based on the actual costs of providing care. For fiscal years 2016 and 2015, the District recognized amounts under the IGT Program of \$1.5 million and \$1.8 million, respectively, which have been reported as net patient service revenues.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

State of California Assembly Bill 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's Certified Public Expenditures ("CPE"), which are matched with federal Medicaid funds. For fiscal years ended 2016 and 2015, the District recorded net patient service revenues of \$0.5 million and \$0.1 million, respectively, related to these payments.

The State of California's Section 1115 Medicaid Waiver Proposal and Demonstration Project, intended as a transition to Federal health care reforms, included the Low Income Health Program (LIHP). Administered by the California Department of Healthcare Services (DHCS), in coordination with the Centers for Medicare and Medicaid Services (CMS), the LIHP provided for access to supplemental Federal funding for certain health care services provided to eligible persons. The LIHP operated from July 1, 2011 through December 31, 2013. No LIHP revenues were recognized in fiscal year 2016 and 2015.

The composition of gross patient revenues by major payor type is as follows:

| | 2016 | 2015 |
|--------------------------------|-------------------------|-------------------------|
| Medicare and Medicare HMO | \$ 1,064,287,000 | \$ 1,080,936,000 |
| Medi-Cal and Medi-Cal HMO | 409,574,000 | 405,454,000 |
| Commercial PPO, HMO and others | 598,867,000 | 601,715,000 |
| Private pay | 45,573,000 | 42,468,000 |
| | <u>\$ 2,118,301,000</u> | <u>\$ 2,130,573,000</u> |

3. Charity Care

The District maintains records to identify and monitor the level of direct charity care it provides. For fiscal year 2016 and 2015, net patient service revenues exclude charges foregone for charity care services and supplies of approximately \$5.2 million and \$8.2 million, respectively. In addition, the estimated cost in excess of reimbursement (unaudited) for indigent patients under publicly-sponsored programs was \$55 million and \$51 million, respectively.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

4. Contributions Receivable

Included in contributions receivable for the Foundation are the following unconditional promises to give:

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Critical Care Pavilion | \$ 1,076,000 | \$ 1,148,000 |
| Center for Joint Replacement | 27,000 | 37,000 |
| Other | <u>158,000</u> | <u>122,000</u> |
| Contributions receivable before unamortized discount and allowance for uncollectibles | 1,261,000 | 1,307,000 |
| Less: | | |
| Allowance for uncollectibles | (57,000) | (59,000) |
| Unamortized net present value adjustment | <u>(61,000)</u> | <u>(65,000)</u> |
| Net contributions receivable | <u>\$ 1,143,000</u> | <u>\$ 1,183,000</u> |
| Amounts due in | | |
| Less than 1 year | \$ 158,000 | \$ 122,000 |
| 1 to 3 years | <u>985,000</u> | <u>1,061,000</u> |
| | <u>\$ 1,143,000</u> | <u>\$ 1,183,000</u> |

The value of contributions receivable represents the Foundation's expected future cash flows from each pledge. For fiscal years 2016 and 2015, the Foundation used a discount rate of 4.5 percent. The rate used for each year is based on management's estimate of the risk-free rate, adjusted for the risk of donor default.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

5. Restricted Net Position and Net Assets

District

The District's restricted net position is expendable for the construction of new facilities for emergency and critical care services.

Foundation

The Foundation's temporarily restricted net assets are available for the following programs:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Critical Care Pavilion | \$ 4,613,000 | \$ 4,631,000 |
| Health-related services | 899,000 | 1,021,000 |
| Pathways Hospice | 394,000 | 326,000 |
| Emergency room and critical care | 294,000 | 306,000 |
| Trauma Rooms | 264,000 | - |
| Center for Joint Replacement | 185,000 | 186,000 |
| Special Care Nursery | 162,000 | 222,000 |
| Education and professional recognition | 132,000 | 116,000 |
| Surgical services | 111,000 | 138,000 |
| Other activities | 20,000 | 23,000 |
| | <u>\$ 7,074,000</u> | <u>\$ 6,969,000</u> |

6. Related-Party Transactions

The District held \$4,276,000 and \$4,456,000 as of June 30, 2016 and 2015, respectively, of the Foundation's assets in the District's short-term investment account. The Foundation donated \$459,000 and \$168,000 to the District for fiscal years 2016 and 2015, respectively.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

7. Fair Value

The fair value of certain assets has been estimated using available market information and appropriate valuation methodologies. A fair market value hierarchy for valuation inputs has been established to prioritize them into levels based on the extent to which inputs used in measuring fair value are observable in the market. The level assigned to a particular financial instrument is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are as follows:

- Level 1 - Values are based on quoted prices (unadjusted) available in active markets for identical assets or liabilities as of the measurement date. Level 1 investments include equity securities and other publicly traded securities.
- Level 2 – Values are based on quoted prices in non-active markets, dealer quotations, or alternative pricing sources for similar assets or liabilities, for which all significant inputs are observable, either directly or indirectly. Level 2 investments included fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.
- Level 3 – Values are based on inputs that are generally unobservable for the asset or liability and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value for Level 3 investments are based upon the best information available and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements. The District has no Level 3 assets or liabilities.
- Net Asset Value (NAV) – Values are based on a net asset value (NAV). These assets are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV may include hedge funds, private equity investments, and commingled funds.
- Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are also not subject to the fair value disclosure requirements.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

The fair value of the District's investment assets, measured on a recurring basis at June 30, 2016, is reflected in the following table:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Net Asset Value (NAV) | Cash and cash equivalents (Not Leveled) | Balance at June 30, 2016 |
|---|---|---|--|-----------------------------|--|-----------------------------|
| District: | | | | | | |
| Short-term investments | | | | | | |
| Money market and mutual funds | \$ - | \$ - | \$ - | \$ - | \$ 34,796,000 | \$ 34,796,000 |
| Long-term investment and restricted funds: | | | | | | |
| U.S. Treasuries | - | 65,468,000 | - | - | - | 65,468,000 |
| U.S. Agencies | - | 35,249,000 | - | - | - | 35,249,000 |
| Corporate & Municipal Bonds | - | 52,050,000 | - | - | - | 52,050,000 |
| Local Agency Investment Fund (LAIF) | - | 232,415,000 | - | - | - | 232,415,000 |
| Money market and mutual funds | - | - | - | - | 2,204,000 | 2,204,000 |
| Total Investments - District | \$ - | \$ 385,182,000 | \$ - | \$ - | \$ 37,000,000 | \$ 422,182,000 |
| Foundation: | | | | | | |
| Short-term investments | | | | | | |
| Money market funds and certificates of deposit | \$ - | \$ - | \$ - | \$ - | \$ 425,000 | \$ 425,000 |
| Domestic equity funds | - | 1,007,000 | - | - | - | 1,007,000 |
| Short-term investments held by District on behalf of Foundation | | | | | | |
| Local Agency Investment Fund (LAIF) | - | 4,276,000 | - | - | - | 4,276,000 |
| Long-term investment and restricted funds: | | | | | | |
| Certificates of deposit | - | - | - | - | 104,000 | 104,000 |
| Total Investments - Foundation | \$ - | \$ 5,283,000 | \$ - | \$ - | \$ 529,000 | \$ 5,812,000 |

The fair value of the District's investment assets, measured on a recurring basis at June 30, 2015, is reflected in the following table:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Net Asset Value (NAV) | Cash and cash equivalents (Not Leveled) | Balance at June 30, 2015 |
|---|---|---|--|-----------------------------|--|-----------------------------|
| District: | | | | | | |
| Short-term investments | | | | | | |
| Money market and mutual funds | \$ - | \$ - | \$ - | \$ - | \$ 19,335,000 | \$ 19,335,000 |
| Long-term investment and restricted funds: | | | | | | |
| U.S. Treasuries | - | 30,889,000 | - | - | - | 30,889,000 |
| U.S. Agencies | - | 16,212,000 | - | - | - | 16,212,000 |
| Corporate & Municipal Bonds | - | 57,786,000 | - | - | - | 57,786,000 |
| Local Agency Investment Fund (LAIF) | - | 169,712,000 | - | - | - | 169,712,000 |
| Money market and mutual funds | - | - | - | - | 58,076,000 | 58,076,000 |
| Total Investments - District | \$ - | \$ 274,599,000 | \$ - | \$ - | \$ 77,411,000 | \$ 352,010,000 |
| Foundation: | | | | | | |
| Short-term investments | | | | | | |
| Money market funds and certificates of deposit | \$ - | \$ - | \$ - | \$ - | \$ 528,000 | \$ 528,000 |
| Domestic equity funds | - | 986,000 | - | - | - | 986,000 |
| Short-term investments held by District on behalf of Foundation | | | | | | |
| Local Agency Investment Fund (LAIF) | - | 4,456,000 | - | - | - | 4,456,000 |
| Total Investments - Foundation | \$ - | \$ 5,442,000 | \$ - | \$ - | \$ 528,000 | \$ 5,970,000 |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

Significant Level 2 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

Fixed income funds consist of government securities and corporate bonds. Where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, as well as discounted cash flow models and other pricing modes. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument therefore changes in assumptions could significantly affect these estimates. Since the fair value has been estimated as of June 30, 2016 and as of June 30, 2015, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

8. Long-Term Investment and Restricted Funds

District

As of June 30, 2016 and 2015, investment and restricted funds, at fair value, have been set aside as follows:

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Board-designated funds | | |
| Funded depreciation | \$ 197,863,000 | \$ 194,755,000 |
| Workers' compensation fund | 11,998,000 | 11,648,000 |
| Funds held by trustee under bond indenture | 209,520,000 | 142,806,000 |
| Restricted funds | <u>2,801,000</u> | <u>2,801,000</u> |
| Total funds | 422,182,000 | 352,010,000 |
| Short-term investments – required for current liabilities | <u>(34,796,000)</u> | <u>(19,335,000)</u> |
| Total long-term investment and restricted funds | <u>\$ 387,386,000</u> | <u>\$ 332,675,000</u> |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

The District's investment policy permits the following investments:

| | Maximum Average Maturity | Maximum Percentage | Maximum Investment |
|---|---|-------------------------------|-------------------------------|
| Authorized investment type | | | |
| U.S. Treasury obligations | 10 years | 100% | none |
| U.S. Government Agency securities | 10 years | 100% | none |
| State of California or local agency obligations | 5 years | 100% | none |
| Corporate bonds | 5 years | 30% | none |
| Certificates of deposit | 5 years | 30% | none |
| Mortgage passthroughs | 5 years | 20% | none |
| Commercial paper | 270 days | 40% | 10% |
| Bankers acceptances | 180 days | 40% | 30% |
| Repurchase agreements | 92 days | 20% | none |
| Mutual funds | N/A | 20% | none |
| LAIF (State Pool Demand Deposits) | N/A | As permitted by law | \$ 65,000,000 * |

* no maximum for investments of bond proceeds

As of June 30, 2016 the District had the following investments with maturities as follows:

| | Fair Value | Investment Maturities (in Years) | | | |
|-----------------------------------|-----------------------|---|-----------------------|---------------------|---------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Investment type | | | | | |
| U.S. Treasuries | \$ 65,467,000 | \$ 5,125,000 | \$ 57,427,000 | \$ 2,915,000 | \$ - |
| U.S. Government Agencies | 35,249,000 | 1,563,000 | 24,615,000 | 3,657,000 | 5,414,000 |
| Corporate bonds | 52,051,000 | 7,261,000 | 44,464,000 | 326,000 | - |
| LAIF (State Pool Demand Deposits) | 232,415,000 | 232,415,000 | - | - | - |
| Money market and mutual funds | 37,000,000 | 37,000,000 | - | - | - |
| Total investments | <u>\$ 422,182,000</u> | <u>\$ 283,364,000</u> | <u>\$ 126,506,000</u> | <u>\$ 6,898,000</u> | <u>\$ 5,414,000</u> |

As of June 30, 2015 the District had the following investments with maturities as follows:

| | Fair Value | Investment Maturities (in Years) | | | |
|-----------------------------------|-----------------------|---|----------------------|---------------------|---------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Investment type | | | | | |
| U.S. Treasuries | \$ 30,889,000 | \$ - | \$ 30,889,000 | \$ - | \$ - |
| U.S. Government Agencies | 16,212,000 | 4,137,000 | 7,268,000 | 4,161,000 | 646,000 |
| Corporate bonds | 57,786,000 | 13,088,000 | 39,258,000 | 1,059,000 | 4,381,000 |
| LAIF (State Pool Demand Deposits) | 169,712,000 | 169,712,000 | - | - | - |
| Money market and mutual funds | 77,411,000 | 77,411,000 | - | - | - |
| Total investments | <u>\$ 352,010,000</u> | <u>\$ 264,348,000</u> | <u>\$ 77,415,000</u> | <u>\$ 5,220,000</u> | <u>\$ 5,027,000</u> |

Amounts invested in the State of California Local Agency Investment Fund include funds designated for operations and for Board-designated purposes.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy, for assets that are Board-designated for capital, limits investments made by each investment manager to have an average maturity of not more than five years.

Credit Risk

The District's investment policies are governed by State statutes that require the District to invest in highly rated and secure cash equivalents, and government and corporate debt securities. The District's policy requires that investments in corporate notes be rated "A-" or its equivalent or better by a nationally recognized rating service under the "prudent man rule" (Civil Code Sect. 2261 et seq.) as long as the investment is deemed prudent and the type of investment is allowable under current legislation of the State of California (Government Code Section 53600 et seq.). Should the rating fall below the required rating, the District's policies provide for a period under which corrective action is to be taken.

The District's investments at June 30, 2016 are rated as follows:

| | Fair Value | Ratings |
|-------------------------------|-----------------------|----------------------|
| Investment type | | |
| U.S. Treasuries | \$ 65,467,000 | Not rated |
| U.S. Government Agencies | 35,249,000 | Not rated |
| Corporate bonds | 52,051,000 | See below |
| Local Agency Investment Fund | 232,415,000 | Not rated |
| Money market and mutual funds | <u>37,000,000</u> | Not rated |
| | <u>\$ 422,182,000</u> | |
| | | Amount |
| Corporate bonds rating | | |
| AAA | | \$ 6,299,000 |
| AA+ | | 2,431,000 |
| AA | | 2,935,000 |
| AA- | | 3,876,000 |
| A+ | | 9,894,000 |
| A | | 15,329,000 |
| A- | | <u>11,287,000</u> |
| | | <u>\$ 52,051,000</u> |

All of the District's investments, including assets held by trustees, are Category 1 investments, which are defined by GASB Statement No. 31 as investments that are insured or registered and are held by the District, or its agent, in the District's name. Investments in any one issuer representing five percent or more of the District's total investments are as follows: U.S. Treasury obligations, local agency investment fund, and BlackRock T-Fund Money Market Institutional #60.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

Foundation

Investments as of June 30, 2016 and 2015, at fair value are summarized below:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Money market and certificates of deposit | \$ 529,000 | \$ 528,000 |
| Equity mutual fund | 1,007,000 | 986,000 |
| Local Agency Investment Fund held by District on behalf of Foundation | <u>4,276,000</u> | <u>4,456,000</u> |
| | <u>\$ 5,812,000</u> | <u>\$ 5,970,000</u> |

9. Capital Assets

Capital assets activity for fiscal year 2016 consisted of the following:

| | Beginning Balance June 30, 2015 | Increases | Decreases | Ending Balance June 30, 2016 |
|--|--|----------------------|------------------------|---|
| Capital assets, not being depreciated | | | | |
| Land | \$ 10,482,000 | \$ - | \$ - | \$ 10,482,000 |
| Construction in progress | 93,782,000 | 119,560,000 | (10,921,000) | 202,421,000 |
| Total capital assets not being depreciated | <u>104,264,000</u> | <u>119,560,000</u> | <u>(10,921,000)</u> | <u>212,903,000</u> |
| Capital assets being depreciated | | | | |
| Land improvements | 11,395,000 | | | 11,395,000 |
| Buildings | 326,066,000 | 129,000 | (435,000) | 325,760,000 |
| Fixed and moveable equipment | 334,732,000 | 14,904,000 | 150,000 | 349,786,000 |
| Total capital assets being depreciated | <u>672,193,000</u> | <u>15,033,000</u> | <u>(285,000)</u> | <u>686,941,000</u> |
| Less: Accumulated depreciation | | | | |
| Land improvements | (7,329,000) | (388,000) | | (7,717,000) |
| Buildings | (141,291,000) | (12,198,000) | | (153,489,000) |
| Fixed and movable equipment | (198,977,000) | (22,185,000) | 285,000 | (220,877,000) |
| Total accumulated depreciation | <u>(347,597,000)</u> | <u>(34,771,000)</u> | <u>285,000</u> | <u>(382,083,000)</u> |
| Total capital assets being depreciated, net | <u>324,596,000</u> | <u>(19,738,000)</u> | <u>-</u> | <u>304,858,000</u> |
| Total capital assets, net | <u>\$ 428,860,000</u> | <u>\$ 99,822,000</u> | <u>\$ (10,921,000)</u> | <u>\$ 517,761,000</u> |

At June 30, 2016, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$190 million.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

Capital assets activity for fiscal year 2015 consisted of the following:

| | Beginning Balance June 30, 2014 | Increases | Decreases | Ending Balance June 30, 2015 |
|--|--|----------------------|------------------------|---|
| Capital assets, not being depreciated | | | | |
| Land | \$ 10,482,000 | \$ - | \$ - | \$ 10,482,000 |
| Construction in progress | 61,469,000 | 46,607,000 | (14,294,000) | 93,782,000 |
| Total capital assets not being depreciated | <u>71,951,000</u> | <u>46,607,000</u> | <u>(14,294,000)</u> | <u>104,264,000</u> |
| Capital assets being depreciated | | | | |
| Land improvements | 11,380,000 | 15,000 | - | 11,395,000 |
| Buildings | 320,254,000 | 5,822,000 | (10,000) | 326,066,000 |
| Fixed and moveable equipment | 324,726,000 | 10,155,000 | (149,000) | 334,732,000 |
| Total capital assets being depreciated | <u>656,360,000</u> | <u>15,992,000</u> | <u>(159,000)</u> | <u>672,193,000</u> |
| Less: Accumulated depreciation | | | | |
| Land improvements | (6,929,000) | (400,000) | - | (7,329,000) |
| Buildings | (129,093,000) | (12,203,000) | 5,000 | (141,291,000) |
| Fixed and movable equipment | (177,283,000) | (21,789,000) | 95,000 | (198,977,000) |
| Total accumulated depreciation | <u>(313,305,000)</u> | <u>(34,392,000)</u> | <u>100,000</u> | <u>(347,597,000)</u> |
| Total capital assets being depreciated, net | <u>343,055,000</u> | <u>(18,400,000)</u> | <u>(59,000)</u> | <u>324,596,000</u> |
| Total capital assets, net | <u>\$ 415,006,000</u> | <u>\$ 28,207,000</u> | <u>\$ (14,353,000)</u> | <u>\$ 428,860,000</u> |

At June 30, 2015, the District was in the process of completing several construction and renovation projects. Commitments related to these projects totaled approximately \$214 million.

The increase in accumulated depreciation includes both operating and non-operating depreciation as detailed below:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Change in accumulated depreciation | | |
| Operating depreciation expense | \$ 34,355,000 | \$ 33,971,000 |
| Non-operating depreciation expense | 416,000 | 421,000 |
| Disposal of fixed assets | - | (100,000) |
| Total increase in accumulated depreciation | <u>\$ 34,771,000</u> | <u>\$ 34,292,000</u> |

10. Short-Term Debt

During the fiscal years 2016 and 2015, Washington Hospital Outpatient Surgery Center had a short-term \$1.0 million revolving line of credit available. The line of credit was renewed upon expiration in September 2016. There have been no draws under the line of credit since its inception.

On March 31, 2015, the District entered into an Irrevocable Standby Letter of Credit (Standby LC) in the amount of \$2,100,000 in connection with the construction of a new parking garage and emergency and critical care services pavilion. No draws have been made under the Standby LC which expires March 2, 2017.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

11. Long-Term Debt

The District issued revenue bonds in 1999 for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation of Hospital facilities. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of the Trustee (US Bank National Association or "US Bank N.A."), as defined in the Series indentures. In October 2015, the District issued revenue (current) refunding bonds (see below discussion of 2015 Series A Bonds), to take advantage of favorable market interest rates and to refinance the remaining outstanding 1999 revenue bond amounts. In connection with this refinancing, funds were placed in an irrevocable escrow account which was used to pay all amounts due on the redemption date of December 10, 2015.

The District issued general obligation bonds in December 2006 for the purpose of providing funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation bonds will be funded through property tax assessments to residents of the District. In June 2016, the District issued general obligation (current) refunding bonds (see below discussion of 2016 General Obligation Bonds), to take advantage of favorable market interest rates and to refinance the remaining outstanding 2006 general obligation bond amounts. In connection with this refinancing, sufficient funds were placed in an irrevocable escrow account to be used to pay all amounts due on the redemption date of August 1, 2016. This transaction meets the criteria for classification as an "in-substance" defeasance as of June 30, 2016, and accordingly, neither the escrowed deposit amounts, nor the liabilities which they are intended to satisfy, are reported as liabilities of the District as of June 30, 2016.

The District issued revenue bonds in 2007 to provide funds for the construction of a new building that houses the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

The District issued general obligation bonds in November 2009 for the purpose of providing funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the general obligation bonds will be funded through property tax assessments to residents of the District.

The District issued revenue bonds in December 2009 to provide funds for the construction of a new building that houses the Center for Joint Replacement and several smaller capital projects. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

The District issued revenue bonds in November 2010 to provide funds for construction, renovations and expansion of space for medical use. The funds will also be used for the purchase of additional medical equipment and expansion of other service areas around the Hospital campus. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

In November 2013, the District issued two additional series of general obligation bonds (2013 Series A and 2013 Series B), as approved by voters in elections in 2004 and 2012. The combined amount of the two issuances was \$145.5 million. The 2013 bonds were issued to provide funds for the construction of a new garage and a Critical Care Pavilion which will include facilities for emergency care, intensive care and cardiac care services. The repayment of these general obligation bonds will be funded through property tax assessments to residents of the District.

In October 2015, the District issued revenue refunding bonds (2015 Series A) to refinance the outstanding amounts due on the 1999 revenue bonds (see also discussion above). The refunded bonds were originally issued for the purpose of providing funds to pay costs associated with the acquisition, construction and renovation of Hospital facilities. To secure the payment of bond service charges and the performance of its other obligations under the indentures, the District has pledged, assigned, and granted the Hospital's revenues, as a security interest in favor of US Bank N.A. (Trustee), as defined in the Series indentures.

Also in October 2015, the District issued general obligation bonds (2015 Series B) for \$145.5 million, the remainder of the amount approved by voters in the 2012 election. The 2015 bonds will provide additional funds for the construction of a Critical Care Pavilion, as described above. The repayment of these general obligation bonds will be funded through property tax assessments to residents of the District.

In June 2016, the District issued general obligation refunding bonds (2016 Series) to refinance the outstanding amounts due on the 2006 general obligation bonds (see also discussion above). The refunded bonds were originally issued to provide funds to pay costs related to the construction of a new Central Utility Plant and other major construction projects. The repayment of the 2016 Series general obligation bonds will be funded through property tax assessments to residents of the District.

The District is also required to meet certain covenants, the most restrictive of which is related to debt service coverage. The District has agreed to maintain a long-term debt service coverage ratio of no less than 1.1 to 1.0 on a yearly basis. The District was in compliance with these covenants as of June 30, 2016 and 2015, maintaining debt service coverage ratios of 4.4 to 1.0 and of 4.6 to 1.0, respectively. The Hospital is the sole member of the obligated group for these bonds.

In fiscal year 2012, the Washington Outpatient Surgery Center (WOSC) borrowed \$995,000 for working capital needs, in the form of a 5-year Non-Disclosable Loan. The loan was payable in monthly installments of \$18,106 with an interest rate of 3.51 percent. WOSC elected to accelerate the repayment of the loan, and the final amount due was paid in 2015.

In fiscal year 2013, the Hospital implemented a time and attendance system for its employees. The purchase of this system was financed under a 5-year installment agreement. Amounts related to this obligation have been capitalized and are included in current maturities of long-term debt and long-term debt, as appropriate.

In fiscal year 2015, WOSC entered into a 3-year lease agreement for surgical equipment. Amounts related to this obligation have been capitalized and are included in current maturities of long-term debt and long-term debt, as appropriate.

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2016 is as follows:

| | Beginning Balance, June 30, 2015 | Additions | Amortization/ Other | Repayments | Ending Balance, June 30, 2016 | Due Within One Year |
|--|--|----------------|------------------------|-----------------|-------------------------------------|------------------------|
| Bonds payable | | | | | | |
| 2016 General Obligation Refunding Bonds, principal and interest (at 2.00% to 5.00%) payable semiannually | \$ - | \$ 30,725,000 | \$ - | \$ - | \$ 30,725,000 | \$ - |
| Plus: Issuance premiums | - | 3,829,000 | 127,000 | - | 3,956,000 | - |
| Total 2016 General Obligation Refunding Bonds Payable | - | 34,554,000 | 127,000 | - | 34,681,000 | - |
| 2015 Revenue Refunding Bonds, principal and interest (at 3.25% to 5.00%) payable semiannually | \$ - | 30,290,000 | - | - | 30,290,000 | \$ 1,510,000 |
| Plus: Issuance premiums | - | 2,271,000 | (424,000) | - | 1,847,000 | - |
| Total 2015 Revenue Refunding Bonds Payable | - | 32,561,000 | (424,000) | - | 32,137,000 | 1,510,000 |
| 2015B General Obligation Bonds, principal and interest (at 3.00% to 5.00%) payable semiannually | \$ - | 145,500,000 | - | - | 145,500,000 | \$ - |
| Plus: Issuance premiums | - | 1,635,000 | (31,000) | - | 1,604,000 | - |
| Total 2015B General Obligation Bonds Payable | - | 147,135,000 | (31,000) | - | 147,104,000 | - |
| 2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually | 105,000,000 | - | - | - | 105,000,000 | - |
| Plus: Issuance premiums | 2,915,000 | - | (192,000) | - | 2,723,000 | - |
| Total 2013B Revenue Bonds Payable | 107,915,000 | - | (192,000) | - | 107,723,000 | - |
| 2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually | \$ 40,500,000 | - | - | - | 40,500,000 | \$ - |
| Plus: Issuance premiums | 796,000 | - | (44,000) | - | 752,000 | - |
| Total 2013A General Obligation Bonds Payable | 41,296,000 | - | (44,000) | - | 41,252,000 | - |
| 2010 Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually | 57,245,000 | - | - | (1,270,000) | 55,975,000 | 1,330,000 |
| Less: Issuance discounts | (901,000) | - | 3,000 | - | (898,000) | - |
| Total 2010 Revenue Bonds Payable | 56,344,000 | - | 3,000 | (1,270,000) | 55,077,000 | 1,330,000 |
| 2009 Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually | 51,510,000 | - | - | (975,000) | 50,535,000 | 1,025,000 |
| Less: Issuance discounts | (735,000) | - | 51,000 | - | (684,000) | - |
| Total 2009 Revenue Bonds Payable | 50,775,000 | - | 51,000 | (975,000) | 49,851,000 | 1,025,000 |
| 2009 General Obligation Bonds, principal and interest (at 4.50% to 5.75%) payable semiannually | 11,825,000 | - | - | (10,000) | 11,815,000 | 15,000 |
| Less: Issuance discounts | (15,000) | - | 1,000 | - | (14,000) | - |
| Total 2009 General Obligation Bonds Payable | 11,810,000 | - | 1,000 | (10,000) | 11,801,000 | 15,000 |
| 2007 Revenue Bonds, principal and interest (at 5.00%) payable semiannually | 73,690,000 | - | - | (1,025,000) | 72,665,000 | 1,070,000 |
| Less: Issuance discounts | (948,000) | - | 97,000 | - | (851,000) | - |
| Total 2007 Revenue Bonds Payable | 72,742,000 | - | 97,000 | (1,025,000) | 71,814,000 | 1,070,000 |
| 2006 General Obligation Bonds Called as of August 1, 2016; refinanced by 2016 Refunding GO Bonds, above | 37,250,000 | - | - | (37,250,000) | - | - |
| Plus: Issuance premiums | 154,000 | - | (154,000) | - | - | - |
| Total 2006 General Obligation Bonds Payable | 37,404,000 | - | (154,000) | (37,250,000) | - | - |
| 1999 Revenue Bonds, Called as of December 10, 2015; refinanced by 2015 Refunding Revenue Bonds, above | 33,580,000 | - | - | (33,580,000) | - | - |
| Less: Issuance discounts | (180,000) | - | 180,000 | - | - | - |
| Total 1999 Revenue Bonds Payable | 33,400,000 | - | 180,000 | (33,580,000) | - | - |
| Loans Payable | | | | | | |
| 2013 ADP Financing principal and interest (at 5.32%) payable monthly | 282,000 | - | - | (101,000) | 181,000 | 106,000 |
| Total 2013 ADP Loan Payable | 282,000 | - | - | (101,000) | 181,000 | 106,000 |
| Capital Lease Obligation | | | | | | |
| 2015 WOSC Stryker Capital Lease principal and interest (at 3.49%) payable monthly | 241,000 | - | - | (85,000) | 156,000 | 88,000 |
| Total 2015 WOSC Capital Lease Obligation | 241,000 | - | - | (85,000) | 156,000 | 88,000 |
| Total long-term debt payable | \$ 412,209,000 | \$ 214,250,000 | \$ (386,000) | \$ (74,296,000) | \$ 551,777,000 | \$ 5,144,000 |

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

A summary of revenue bond, general obligation bond and loans payable activity for the year ended June 30, 2015 is as follows:

| | Beginning Balance, June 30, 2014 | Additions | Amortization/ Other | Repayments | Ending Balance, June 30, 2015 | Due Within One Year |
|---|--|------------|------------------------|-----------------|-------------------------------------|------------------------|
| Bonds payable | | | | | | |
| 2013B General Obligation Bonds, principal and interest (at 3.00% to 5.50%) payable semiannually | | | | | | |
| | 105,000,000 | - | - | - | 105,000,000 | - |
| Plus: Issuance premiums | 3,108,000 | - | (193,000) | - | 2,915,000 | - |
| Total 2013B Series Revenue Bonds Payable | 108,108,000 | - | (193,000) | - | 107,915,000 | - |
| 2013A General Obligation Bonds, principal and interest (at 4.00% to 5.50%) payable semiannually | | | | | | |
| | \$ 40,500,000 | \$ - | \$ - | \$ - | \$ 40,500,000 | \$ - |
| Plus: Issuance premiums | 840,000 | - | (44,000) | - | 796,000 | - |
| Total 2013A Series Revenue Bonds Payable | 41,340,000 | - | (44,000) | - | 41,296,000 | - |
| 2010 Series Revenue Bonds, principal and interest (at 5.00% to 5.50%) payable semiannually | | | | | | |
| | 58,450,000 | - | - | (1,205,000) | 57,245,000 | 1,270,000 |
| Less: Issuance discounts | (881,000) | - | (20,000) | - | (901,000) | - |
| Total 2010 Series Revenue Bonds Payable | 57,569,000 | - | (20,000) | (1,205,000) | 56,344,000 | 1,270,000 |
| 2009 Series Revenue Bonds, principal and interest (at 5.00% to 6.25%) payable semiannually | | | | | | |
| | 52,440,000 | - | - | (930,000) | 51,510,000 | 975,000 |
| Less: Issuance discounts | (785,000) | - | 50,000 | - | (735,000) | - |
| Total 2009 Series Revenue Bonds Payable | 51,655,000 | - | 50,000 | (930,000) | 50,775,000 | 975,000 |
| 2009 General Obligation Bonds, principal and interest (at 4.25% to 5.75%) payable semiannually | | | | | | |
| | 16,125,000 | - | - | (4,300,000) | 11,825,000 | 10,000 |
| Plus: Issuance premiums | (6,000) | - | (9,000) | - | (15,000) | - |
| Total 2009 General Obligation Bonds Payable | 16,119,000 | - | (9,000) | (4,300,000) | 11,810,000 | 10,000 |
| 2007 Series Revenue Bonds, principal and interest (at 5.00%) payable semiannually | | | | | | |
| | 74,665,000 | - | - | (975,000) | 73,690,000 | 1,025,000 |
| Less: Issuance discounts | (1,052,000) | - | 104,000 | - | (948,000) | - |
| Total 2007 Series Revenue Bonds Payable | 73,613,000 | - | 104,000 | (975,000) | 72,742,000 | 1,025,000 |
| 2006 General Obligation Bonds principal and interest (at 3.60% to 5.00%) payable semiannually | | | | | | |
| | 38,285,000 | - | - | (1,035,000) | 37,250,000 | 1,070,000 |
| Plus: Issuance premiums | 186,000 | - | (32,000) | - | 154,000 | - |
| Total 2006 General Obligation Bonds Payable | 38,471,000 | - | (32,000) | (1,035,000) | 37,404,000 | 1,070,000 |
| 1999 Series Revenue Bonds, principal and interest (at 5.00% to 5.25%) payable semiannually | | | | | | |
| | 35,050,000 | - | - | (1,470,000) | 33,580,000 | 1,545,000 |
| Less: Issuance discounts | (203,000) | - | 23,000 | - | (180,000) | - |
| Total 1999 Series Revenue bonds payable | 34,847,000 | - | 23,000 | (1,470,000) | 33,400,000 | 1,545,000 |
| Loans Payable | | | | | | |
| 2013 ADP Financing principal and interest (at 5.32%) payable monthly | | | | | | |
| | 377,000 | - | - | (95,000) | 282,000 | 100,000 |
| Total 2013 ADP Loan Payable | 377,000 | - | - | (95,000) | 282,000 | 100,000 |
| 2012 WOSC Loan Payable principal and interest (at 3.51%) payable monthly | | | | | | |
| | 260,000 | - | - | (260,000) | - | - |
| Total 2012 WOSC Loan Payable | 260,000 | - | - | (260,000) | - | - |
| Capital Lease Obligation | | | | | | |
| 2015 WOSC Stryker Capital Lease principal and interest (at 3.49%) payable monthly | | | | | | |
| | - | 262,000 | - | (21,000) | 241,000 | 86,000 |
| Total 2015 WOSC Capital Lease Obligation | - | 262,000 | - | (21,000) | 241,000 | 86,000 |
| Total long-term debt payable | \$ 422,359,000 | \$ 262,000 | \$ (121,000) | \$ (10,291,000) | \$ 412,209,000 | \$ 6,081,000 |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

A summary of the revenue bonds and general obligation bonds issuance information is as follows:

| | Original Issue Amount | Maturity Date | Effective Interest Rate | |
|--------------------------------|-----------------------------|------------------|----------------------------|-------|
| | | | 2016 | 2015 |
| Bond issue | | | | |
| 2016 General Obligation Bonds | \$ 30,725,000 | 8/1/2036 | 2.59% | N/A |
| 2015 Revenue Bonds | 30,290,000 | 7/1/2029 | 2.87% | N/A |
| 2015 General Obligation Bonds | 145,500,000 | 8/1/2045 | 3.90% | N/A |
| 2013B General Obligation Bonds | 105,000,000 | 8/1/2043 | 4.86% | 4.85% |
| 2013A General Obligation Bonds | 40,500,000 | 8/1/2043 | 4.86% | 4.85% |
| 2010 Revenue Bonds | 60,725,000 | 7/1/2038 | 5.38% | 5.33% |
| 2009 Revenue Bonds | 55,000,000 | 7/1/2039 | 5.74% | 6.21% |
| 2009 General Obligation Bonds | 25,000,000 | 8/1/2039 | 6.23% | 5.60% |
| 2007 Revenue Bonds | 79,645,000 | 7/1/2037 | 5.19% | 5.21% |

The long-term debt payment requirements as of June 30, 2016, excluding amortization of discounts and premiums on bonds payable, are as follows:

| | Total Long-Term Debt | |
|----------------|-----------------------|-----------------------|
| | Principal | Interest |
| June 30 | | |
| 2017 | \$ 5,144,000 | \$ 25,703,000 |
| 2018 | 6,498,000 | 25,780,000 |
| 2019 | 6,660,000 | 25,475,000 |
| 2020 | 7,970,000 | 25,125,000 |
| 2021 | 8,820,000 | 24,724,000 |
| 2022 - 2026 | 46,905,000 | 116,767,000 |
| 2027 - 2031 | 61,325,000 | 104,253,000 |
| 2032 - 2036 | 105,265,000 | 84,606,000 |
| 2037 - 2041 | 133,010,000 | 52,524,000 |
| 2042 - 2046 | 161,745,000 | 18,789,000 |
| | <u>\$ 543,342,000</u> | <u>\$ 503,746,000</u> |

Components of interest expense include the following:

| | 2016 | 2015 |
|-------------------------------|---------------------|----------------------|
| Total interest cost | \$ 24,253,000 | \$ 21,314,000 |
| Capitalized interest expense | <u>(14,706,000)</u> | <u>(10,605,000)</u> |
| Net interest expense | <u>\$ 9,547,000</u> | <u>\$ 10,709,000</u> |
| Capitalized investment income | \$ 560,000 | \$ 333,000 |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

12. Employee Benefit Plans

Defined Benefit Retirement Plan

The District maintains a defined benefit retirement plan, the Washington Township Health Care District Retirement Plan (the Plan), that covers all employees who meet certain eligibility requirements. The Plan, as approved by the Board of Directors of the District, is a single employer plan funded solely by the District. Benefits under the Plan are calculated based on the participant's length of service, age at retirement, and average compensation as defined by the Plan.

Employees are fully vested in the Plan after 5 years of service and are eligible to receive an unreduced benefit once they reach age 65. An employee who attains age 62 and has completed 20 years of service, or an employee who attains age 60 with 30 years of service is also eligible for an unreduced benefit. The Plan also provides disability and death benefits. The Plan does not issue a stand-alone financial report.

For the January 1, 2015 valuation date, the District updated the mortality assumptions for both healthy and disabled participants to use tables that were finalized in October 2014. The impact of the overall increase in life expectancy reflected in these tables was to increase the net pension obligation as of June 30, 2015 by \$14.5 million.

Based on guidance under GASB 68, and the District's intention to fully fund the Plan by 2021, the benefit discount rate is equal to the expected long-term return on assets, which assumes that Plan assets will be invested in a diversified portfolio of stocks and bonds.

The District has flexibility in determining the amount to contribute to the Plan each year. In determining the amount of the annual contribution, the District considers the calculated actuarially determined contribution. The District has adopted a funding policy that is intended to result in the funding status of the Plan reaching 100 percent, as calculated under the provisions of GASB 68.

Participant data for the Plan, as of the measurement date for the indicated fiscal years, is shown in the table below:

| | 2016 | 2015 |
|----------------------------|-------------|-------------|
| Active | 1,346 | 1,304 |
| Vested terminated | 677 | 664 |
| Retirees and beneficiaries | 817 | 770 |
| Total participants | 2,840 | 2,738 |

Washington Township Health Care District

Notes to Financial Statements

June 30, 2016 and 2015

Components of pension cost and deferred outflows and inflows of resources for years ended June 30, were as follows:

| | 2016 | 2015 |
|---|------------------------|------------------------|
| Pension cost | | |
| Service cost | \$ 5,669,000 | \$ 5,434,000 |
| Employee Contributions | (373,000) | (139,000) |
| Interest | 23,657,000 | 21,585,000 |
| Expected return on plan assets | (18,674,000) | (16,231,000) |
| Administrative expenses | 64,000 | 65,000 |
| Recognition of deferred amounts | 1,103,000 | 1,178,000 |
| Plan change | | - |
| Total pension cost | <u>\$ 11,446,000</u> | <u>\$ 11,892,000</u> |
| Deferred inflows of resources | | |
| Remaining balance at beginning of year: | | |
| Established July 1, 2012 | | |
| Difference between expected and actual experience | \$ (1,583,000) | \$ (2,780,000) |
| Difference between expected and actual earnings on plan investments | (2,271,000) | (3,406,000) |
| Established July 1, 2013 | | |
| Difference between expected and actual earnings on plan investments | (7,344,000) | (9,792,000) |
| Established July 1, 2015 | | |
| Difference between expected and actual experience | <u>(13,657,000)</u> | <u>-</u> |
| | <u>(24,855,000)</u> | <u>(15,978,000)</u> |
| Amount recognized in current year pension cost: | | |
| Established July 1, 2012 | | |
| Difference between expected and actual experience | (1,196,000) | (1,196,000) |
| Difference between expected and actual earnings on plan investments | (1,136,000) | (1,135,000) |
| Established July 1, 2013 | | |
| Difference between expected and actual earnings on plan investments | (2,448,000) | (2,448,000) |
| Established July 1, 2015 | | |
| Difference between expected and actual experience | <u>(3,461,000)</u> | <u>-</u> |
| | <u>(8,241,000)</u> | <u>(4,779,000)</u> |
| Deferred inflows of resources at end of year | <u>\$ (16,614,000)</u> | <u>\$ (11,199,000)</u> |
| Deferred outflows of resources | | |
| Remaining balance at beginning of year: | | |
| Established July 1, 2012 | | |
| Change in assumptions | \$ 657,000 | \$ 1,154,000 |
| Established July 1, 2013 | | |
| Difference between expected and actual experience | 2,532,000 | 3,464,000 |
| Change in assumptions | 209,000 | 285,000 |
| Established July 1, 2014 | | |
| Difference between expected and actual experience | 449,000 | 578,000 |
| Difference between expected and actual earnings on plan investments | 4,340,000 | 5,426,000 |
| Change in assumptions | 11,284,000 | 14,522,000 |
| Established July 1, 2015 | | |
| Difference between expected and actual earnings on plan investments | <u>16,934,000</u> | <u>-</u> |
| Deferred outflows of resources at the beginning of the year | <u>36,405,000</u> | <u>25,429,000</u> |
| Amount recognized in current year pension cost: | | |
| Established July 1, 2012 | | |
| Change in assumptions | 497,000 | 497,000 |
| Established July 1, 2013 | | |
| Difference between expected and actual experience | 931,000 | 931,000 |
| Change in assumptions | 77,000 | 77,000 |
| Established July 1, 2014 | | |
| Difference between expected and actual experience | 129,000 | 129,000 |
| Difference between expected and actual earnings on plan investments | 1,085,000 | 1,085,000 |
| Change in assumptions | 3,238,000 | 3,238,000 |
| Established July 1, 2015 | | |
| Difference between expected and actual earnings on plan investments | <u>3,387,000</u> | <u>-</u> |
| | <u>9,344,000</u> | <u>5,957,000</u> |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

| Amounts of deferred inflows to be recognized in pension cost for future years | | |
|---|------------------------|------------------------|
| 2016 | \$ - | \$ (4,780,000) |
| 2017 | (7,431,000) | (3,970,000) |
| 2018 | (5,909,000) | (2,449,000) |
| 2019 | (3,274,000) | - |
| 2020 | - | - |
| 2021 | - | - |
| Thereafter | - | - |
| | <u>\$ (16,614,000)</u> | <u>\$ (11,199,000)</u> |
| Amounts of deferred outflows to be recognized in pension cost for future years | | |
| 2016 | \$ - | \$ 5,957,000 |
| 2017 | 9,008,000 | 5,620,000 |
| 2018 | 8,564,000 | 5,177,000 |
| 2019 | 6,103,000 | 2,718,000 |
| 2020 | 3,386,000 | - |
| 2021 | - | - |
| Thereafter | - | - |
| | <u>\$ 27,061,000</u> | <u>\$ 19,472,000</u> |

The following table summarizes changes in net pension liability from July 1, 2014 to June 30, 2016:

| | 2016 | 2015 |
|---|----------------------------|----------------------|
| Total pension liability | | |
| Service cost | \$ 5,669,000 | \$ 5,434,000 |
| Interest | 23,657,000 | 21,585,000 |
| Change in plan provisions | - | - |
| Difference between expected and actual experience | (13,656,000) | 578,000 |
| Change in assumptions | - | 14,522,000 |
| Benefit payments | <u>(13,760,000)</u> | <u>(13,762,000)</u> |
| Net change in total pension liability | 1,910,000 | 28,357,000 |
| Total pension liability (beginning of year) | <u>323,705,000</u> | <u>295,348,000</u> |
| Total pension liability (end of year) | <u>325,615,000</u> | <u>323,705,000</u> |
| Plan fiduciary net position | | |
| Employer contributions | 22,100,000 | 36,200,000 |
| Employee contributions | 374,000 | 139,000 |
| Net investment income | 6,740,000 | 10,805,000 |
| Benefit payments | (13,760,000) | (13,762,000) |
| Administrative expense | (64,000) | (65,000) |
| Other | <u>-</u> | <u>-</u> |
| Net change in fiduciary net position | 15,390,000 | 33,317,000 |
| Fiduciary net position (beginning of year) | <u>257,265,000</u> | <u>223,948,000</u> |
| Fiduciary net position (end of year) | <u>272,655,000</u> | <u>257,265,000</u> |
| Net pension liability (end of year) | <u>\$ 52,960,000</u> | <u>\$ 66,440,000</u> |
| Fiduciary net position as percent of liability | <u>83.7 %</u> ¹ | <u>79.5 %</u> |
| Covered employee payroll | <u>142,319,000</u> | <u>136,999,000</u> |
| Net pension liability as percent of covered payroll | <u>37.2 %</u> ² | <u>48.5 %</u> |
| Deferred outflows of resources | | |
| Employer contributions after measurement date | \$ - | \$ 5,000,000 |
| ¹ Fiduciary net position as percent of liability including deferred outflows of resources | 83.7% | 81.0% |
| ² Net pension liability as percent of covered payroll including deferred outflows of resources | 37.2% | 44.8% |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

The following table summarizes the actuarial assumptions used to determine net pension liability and plan fiduciary net position as of June 30, 2015 and June 30, 2016:

| | |
|---|--|
| Valuation date | January 1, 2015, January 1, 2016 |
| Actuarial cost method | Entry Age Normal, Level Percent of Pay |
| Amortization method | Straight Line |
| Asset valuation method | Fair Value |
| Actuarial assumptions (including 3% inflation) | |
| Discount Rate | 7.50% |
| Projected Salary Increases | 3.00% |
| Valuation date | January 1, 2015 |
| Mortality Table for Healthy Participants | Internal Revenue Code Section 430(h)(3)(A), using static tables and separate mortality rates for annuitants and non-annuitants |
| Mortality Table for Disabled Participants | RP-2000 Disabled Mortality Tables for males and females |
| Valuation date | January 1, 2016 |
| Mortality Table for Healthy Participants | RP-2014 base table with two-dimensional projection scale BB projected generationally |
| Mortality Table for Disabled Participants | RP-2014 Disabled retiree table |
| Sensitivity of Net Pension Liability at January 1, 2014 to changes in the Discount Rate, with no other changes - | |
| 1 percent decrease (6.5%) | \$ 106,951,000 |
| Current Discount Rate (7.5%) | 71,400,000 |
| 1 percent increase (8.5%) | 41,999,000 |
| Sensitivity of Net Pension Liability at January 1, 2015 to changes in the Discount Rate, with no other changes - | |
| 1 percent decrease (6.5%) | \$ 106,611,000 |
| Current Discount Rate (7.5%) | 66,440,000 |
| 1 percent increase (8.5%) | 32,945,000 |
| Sensitivity of Net Pension Liability at January 1, 2016 to changes in the Discount Rate, with no other changes - | |
| 1 percent decrease (6.5%) | \$ 92,351,000 |
| Current Discount Rate (7.5%) | 52,960,000 |
| 1 percent increase (8.5%) | 19,977,000 |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

The fair value of the District's pension investments measured as of January 1, 2016, and used for the purpose of the June 30, 2016 valuation, is reflected in the following table:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Net Asset Value (NAV) | Cash and cash equivalents (Not Leveled) | Balance at valuation date |
|-------------------------------|---|---|--|-----------------------------|---|------------------------------|
| Money market and mutual funds | \$ - | \$ - | \$ - | \$ - | \$ 97,883,000 | \$ 97,883,000 |
| Fixed income securities | - | 86,168,000 | - | - | - | 86,168,000 |
| Domestic equity fund | - | 38,136,000 | - | - | - | 38,136,000 |
| International equity fund | - | 34,453,000 | - | - | - | 34,453,000 |
| Private equity fund | - | - | - | 15,889,000 | - | 15,889,000 |
| Total pension assets | <u>\$ -</u> | <u>\$ 158,757,000</u> | <u>\$ -</u> | <u>\$ 15,889,000</u> | <u>\$ 97,883,000</u> | <u>\$ 272,529,000</u> |

The fair value of the District's pension investments measured as of January 1, 2015, and used for the purpose of the June 30, 2015 valuation, is reflected in the following table:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Net Asset Value (NAV) | Cash and cash equivalents (Not Leveled) | Balance at valuation date |
|-------------------------------|---|---|--|-----------------------------|---|------------------------------|
| Money market and mutual funds | \$ - | \$ - | \$ - | \$ - | \$ 56,172,000 | \$ 56,172,000 |
| Fixed income securities | - | 98,881,000 | - | - | - | 98,881,000 |
| Domestic equity fund | - | 51,209,000 | - | - | - | 51,209,000 |
| International equity fund | - | 34,611,000 | - | - | - | 34,611,000 |
| Private equity fund | - | - | - | 16,801,000 | - | 16,801,000 |
| Total pension assets | <u>\$ -</u> | <u>\$ 184,701,000</u> | <u>\$ -</u> | <u>\$ 16,801,000</u> | <u>\$ 56,172,000</u> | <u>\$ 257,674,000</u> |

For a description of the levels used for valuation, information about the valuation techniques and inputs used to measure the fair value of plan assets, see discussion regarding fair value measurements in Note 7.

The District also has a Deferred Compensation Plan available to employees. Generally, any employee is eligible to voluntarily enter into an agreement with the District to defer current wages at amounts limited by federal law. Effective January 1, 2010, under the terms of the Washington Township Health Care District Employer Matching Contributions Plan (the Matching Plan), the District matches participant contributions, for employees with a minimum of 1,000 hours in a benefitted status, to a maximum of 1.5 percent of gross earnings. Under the deferred compensation plan and the Matching Plan agreements, the District purchases annuity contracts for various investments. All investment earnings, including market value appreciation and depreciation, are set aside in trusts for the benefit of the participants.

Matching contributions made by the District in fiscal years 2016 and 2015 were as follows:

| Contribution Year | Amount | Employee Deductions Being Matched |
|-------------------|--------------|---|
| 2016 | \$ 1,786,000 | Calendar year 2015 |
| 2015 | 1,820,000 | Calendar year 2014 |

Washington Township Health Care District
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Defined Benefit Post-Employment Medical Plan

The District provides a defined benefit post-employment medical plan (the Washington Township Health Care District Postretirement Medical Plan, or the Plan) that covers both salaried and non-salaried employees, as approved by the Board of Directors of the District. Eligible individuals are those employees who have been continuously in a benefited status for the five years prior to their retirement date, and who concurrently elect retirement and the receipt of pension plan benefits after they reach age 55 with a minimum of fifteen years of service.

Eligible retirees who are less than age 65, with fifteen years to twenty years of service, are eligible to receive a monthly reimbursement for medical expenses up to a stipulated amount (Retiree Medical Reimbursement Plan). Eligible employees with twenty years of service or more may elect the Retiree Medical Reimbursement Plan or coverage under the Blue Shield Retiree Medical Plan, with the District providing premium subsidies of from 35 percent (with 15 years of service) to 100 percent (with 30 years of service). These benefits are only available until the retirees reach age 65.

Once eligible retirees reach age 65, the Plan allows for the payment to the retiree of the cost of Medicare Part B insurance premiums. Employees retiring at or after age 55 with 25 years of benefited service are also eligible for a prescription drug benefit which provides reimbursement up to a stipulated amount for 10 years beginning at the later of age 65 or retirement.

Other Post-Employment Benefits (OPEB) are funded entirely by the District on a pay-as-you-go basis. For fiscal years 2016 and 2015, the District contributed \$1.5 million and \$1.4 million, respectively, to fund benefits paid in those years.

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and the changes in the District's OPEB obligation.

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Annual required contribution | \$ 5,451,000 | \$ 5,066,000 |
| Interest on net OPEB obligation | 1,735,000 | 1,637,000 |
| Adjustment to annual required contribution | <u>(3,460,000)</u> | <u>(3,265,000)</u> |
| Annual OPEB cost | 3,726,000 | 3,438,000 |
| Contributions made | <u>1,458,000</u> | <u>1,381,000</u> |
| Increase in net OPEB Obligation | 2,268,000 | 2,057,000 |
| Net OPEB obligation | | |
| Beginning of year | <u>36,523,000</u> | <u>34,466,000</u> |
| End of year | <u>\$ 38,791,000</u> | <u>\$ 36,523,000</u> |

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|--------------------------|-----------------------------|---|------------------------------------|
| 2014 | \$ 3,481,000 | 37.56 % | \$ 34,466,000 |
| 2015 | 3,438,000 | 40.17 % | 36,523,000 |
| 2016 | 3,726,000 | 39.13 % | 38,791,000 |

As of June 30, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$40.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$40.9 million. The covered payroll (annual payroll of active employees covered by the plan) was \$129.9 million, and the ratio of the UAAL to the covered payroll was 31.5 percent.

In the June 30, 2016 and June 30, 2015 actuarial valuations, the projected unit credit actuarial cost method was used. The actuarial assumptions for both years include an initial annual healthcare cost trend rate of 7 percent, reduced by decrements to an ultimate rate of 5 percent by the year 2020 and 2019, respectively. For each of the years, a discount rate of 4.75 percent was assumed in the calculation and the UAAL is being amortized as a level percentage over 15 years on an open basis.

In calculating the actuarially accrued liability for fiscal years 2015 and 2016, the District used the same updated mortality tables that were used for the defined benefit retirement plan. The combined impact of the fiscal year 2015 change in mortality assumptions for healthy and disabled participants was an increase of \$3.2 million in actuarial accrued liability as of June 30, 2015.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

13. Insurance Plans

The District is self-insured for its hospital professional, general, and directors and officer's liability insurance up to certain retention levels. The District's hospital professional, general, and directors and officers excess liability insurance is purchased from BETA Healthcare Group (BETA). BETA was formed in 1979 for the purpose of operating a self-insurance program for the excess insurance coverage for certain hospital districts of the Association of California Hospital Districts (ACHD). Effective October 1, 1989, BETA became a separate joint powers authority, establishing itself as a public agency and distinct from ACHD. BETA is managed by a board of 15 elected representatives (the BETA council). The BETA council and its six committees meet quarterly to vote on all matters affecting the program. A representative from the District occupies one seat on the BETA Council.

The District is self-funded for its workers' compensation and has been issued a Certificate of Consent to Self-Insure by the State of California, Department of Industrial Relations. The District purchases excess workers' compensation insurance coverage.

Primary insurance coverage types, limits and retention amounts are included below:

| | Policy Limit | Self-insured Retention per Occurrence |
|--|-------------------------|--|
| Coverage | | |
| General | | |
| All risk property | \$ 1,000,000,000 | \$ 40,000 |
| Boiler and machinery Insurance | 100,000,000 | 10,000 |
| Hospital professional and general liability | 40,000,000 | 25,000 |
| Excess workers' compensation | Statutory | 1,250,000 |
| Directors and officers | 10,000,000 | 25,000 |
| Commercial crime | 10,000,000 | 2,500 |
| Automobile insurance | 10,000,000 | 500 |
| Cyber liability | 2,000,000 | 50,000 |
| Cyber notifications | 1,000,000 | 10,000 per 100 |
| Construction-related | | |
| Owner Controlled Insurance Program (primary) | 2,000,000 | 500,000 |
| Contractor/subcontractor workers' compensation | Statutory | 1,000,000 |
| Owner Controlled Insurance Program (excess) | 100,000,000 | - |
| Builders Risk property: | | |
| All Risk | 235,000,000 | 50,000 |
| Flood | 100,000,000 | 50,000 |
| Earthquake | 25,000,000 | 50,000 |
| Owner's Protective Professional Indemnity | 15,000,000 | 250,000 |

Settled claims have not exceeded the District's policy limits in any year.

Washington Township Health Care District
Notes to Financial Statements
June 30, 2016 and 2015

The District has actuarial reviews performed annually on its self-insured claims programs, including professional and general liability, directors and officers coverage, workers' compensation, and employee health, vision and dental benefits. Estimated liabilities include amounts for incurred but not reported (IBNR) claims.

14. Compensated Absences

District employees earn paid leave at varying rates depending on length of service and job classification. Employees can accumulate up to 640 hours of paid leave. All accumulated unused leave in excess of the maximum accrual amount is paid at the employee's anniversary date. Upon separation, unused vested leave balances are paid in full. As of June 30, 2016 and 2015, the approximate liability for unpaid compensated absences was \$15.0 million and \$14.6 million, respectively.

15. Commitments and Contingencies

Lease Commitments

DEVCO has operating leases for medical clinic facilities. Rental expense under these leases for fiscal years 2016 and 2015 was \$3.0 million and \$3.0 million, respectively.

Future minimum rental commitments for fiscal years ended subsequent to June 30, 2016 are as follows:

| | |
|------------|----------------------|
| 2017 | \$ 3,036,000 |
| 2018 | 2,611,000 |
| 2019 | 2,390,000 |
| 2020 | 1,404,000 |
| 2021 | 529,000 |
| Thereafter | <u>609,000</u> |
| | <u>\$ 10,579,000</u> |

Litigation

The District is involved in various claims and litigation, as both plaintiff and defendant, arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the District's financial position.

Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**Required Supplementary Pension and Post-Employment
Benefit Information**

**Washington Township Health Care District
 Required Supplementary Pension and Post-Employment Benefit Information
 (unaudited)**

Pension Plan Portfolio

Long term expected rate of returns are forecasted on a forward-looking basis by each asset class. Then the total portfolio's return is forecasted by combining returns of the asset classes based on the Plan's asset allocation targets as well as the asset classes' diversification benefits. The forecasting method takes into consideration current market conditions, as well as potential future changes, such as yield shifts or valuation changes. For example, equity asset class methodology includes two models that focus on variables including expected earnings growth, dividend income and expected inflation to triangulate on a reasonable expected return. Fixed income models rely heavily on the existing yield environment but current projections assume a rising rate environment, given that prevailing yields are near historic lows. The forecasting methodology combines insights of expected returns for the next immediate period and a long term equilibrium period, to maintain capital markets' long term integrity.

The expected rates of return are presented as geometric means. The details are summarized in the following table:

| | | |
|--|------------------|-------------------------------------|
| | <u>Long Term</u> | |
| Total Portfolio | 7.66% | |
| Total Portfolio Asset Allocation: | | Asset Class Expected Returns |
| U.S. Equity | 35% | 8.51% |
| Non-U.S. Equity | 25% | 8.66% |
| Core Fixed Income | 20% | 4.93% |
| Opportunistic Credit | 15% | 7.68% |
| Real Assets | <u>5%</u> | 7.61% |
| Total | 100% | |

**Washington Township Health Care District
Required Supplementary Pension and Post-Employment Benefit Information
(unaudited)**

Defined Benefit Retirement Plan

The District's actuarially determined contribution and actual contributions, for this plan year and the nine plan years prior, are presented in the following table:

| Fiscal Year Ended | Actuarially Determined Contribution | Actual Contribution | Contribution Excess (Deficiency) | Covered Employee Payroll | Contributions as % of Covered Payroll |
|--------------------------|--|--------------------------------|---|---|--|
| 2007 | \$ 8,282,000 | \$ 8,282,000 | \$ - | \$ 91,532,000 | 9.05% |
| 2008 | 9,407,000 | 9,500,000 | 93,000 | 100,581,000 | 9.45% |
| 2009 | 10,004,000 | 8,500,000 | (1,504,000) | 104,827,000 | 8.11% |
| 2010 | 12,594,000 | - ¹ | (12,594,000) | 121,053,000 | 0.00% |
| 2011 | 15,683,000 | - ¹ | (15,683,000) | 131,700,000 | 0.00% |
| 2012 | 18,344,000 | - ¹ | (18,344,000) | 142,590,000 | 0.00% |
| 2013 | 19,800,000 | - ¹ | (19,800,000) | 145,324,000 | 0.00% |
| 2014 | 18,500,000 | 134,026,000 | 115,526,000 | 144,445,000 | 92.79% |
| 2015 | 18,000,000 | 22,700,000 | 4,700,000 | 136,999,000 | 16.57% |
| 2016 | 17,700,000 | 22,100,000 | 4,400,000 | 142,319,000 | 15.53% |
| | <u>\$ 148,314,000</u> | <u>\$ 205,108,000</u> | <u>\$ 56,794,000</u> | | |

¹ For the years 2010 to 2013, the District Board set aside the following amounts in accounts designated for future pension funding, all of which were included in the 2014 Actual Contribution amount of \$134,026,000:

| | |
|------|----------------------|
| 2010 | \$ 22,000,000 |
| 2011 | 22,000,000 |
| 2012 | 19,000,000 |
| 2013 | 21,800,000 |
| | <u>\$ 84,800,000</u> |

Washington Township Health Care District Required Supplementary Pension and Post-Employment Benefit Information (unaudited)

The following table summarizes changes in net pension liability from July 1, 2012 to June 30, 2016:

| | 2016 | 2015 | 2014 | 2013 |
|---|----------------------|---------------------------|---------------------------|-----------------------|
| Total pension liability | | | | |
| Service cost | \$ 5,669,000 | \$ 5,434,000 | \$ 5,456,000 | \$ 6,580,000 |
| Interest | 23,657,000 | 21,585,000 | 20,223,000 | 19,283,000 |
| Difference between expected and actual experience | (13,656,000) | 578,000 | 4,395,000 | (5,173,000) |
| Change in assumptions | - | 14,522,000 | 362,000 | 2,148,000 |
| Benefit payments | (13,760,000) | (13,762,000) | (11,483,000) | (9,298,000) |
| Net change in total pension liability | 1,910,000 | 28,357,000 | 18,953,000 | 13,540,000 |
| Total pension liability (beginning of year) | 323,705,000 | 295,348,000 | 276,395,000 | 262,855,000 |
| Total pension liability (end of year) (a) | 325,615,000 | 323,705,000 | 295,348,000 | 276,395,000 |
| Plan fiduciary net position | | | | |
| Employer contributions | 22,100,000 | 36,200,000 | 115,526,000 | - |
| Employee contributions | 374,000 | 139,000 | - | - |
| Net investment income | 6,740,000 | 10,805,000 | 19,342,000 | 12,619,000 |
| Benefit payments | (13,760,000) | (13,762,000) | (11,483,000) | (9,298,000) |
| Administrative expense | (64,000) | (65,000) | (62,000) | (69,000) |
| Net change in fiduciary net position | 15,390,000 | 33,317,000 | 123,323,000 | 3,252,000 |
| Plan fiduciary net position (beginning of year) | 257,265,000 | 223,948,000 | 100,625,000 | 97,373,000 |
| Plan fiduciary net position (end of year) (b) | 272,655,000 | 257,265,000 | 223,948,000 | 100,625,000 |
| Net pension liability (end of year) (a) - (b) | \$ 52,960,000 | \$ 66,440,000 | \$ 71,400,000 | \$ 175,770,000 |
| Plan fiduciary net position as percent of total pension liability | 83.7% | 79.5% ¹ | 75.8% ¹ | 36.4% |
| Covered-employee payroll | \$ 142,319,000 | \$ 136,999,000 | \$ 144,445,000 | \$ 145,324,000 |
| Net pension liability as percent of covered-employee payroll | 37.2% | 48.5% ² | 49.4% ² | 121.0% |
| Deferred outflows of resources | | | | |
| Employer contributions after measurement date | \$ - | \$ 5,000,000 | \$ 18,500,000 | \$ - |
| ¹ Fiduciary net position as percent of liability including deferred outflows of resources | 83.7% | 81.0% | 82.1% | 36.4% |
| ² Net pension liability as percent of covered payroll including deferred outflows of resources | 37.2% | 44.8% | 36.6% | 121.0% |

Washington Township Health Care District Required Supplementary Pension and Post-Employment Benefit Information (unaudited)

Defined Benefit Post-Employment Medical Plan

The following table summarizes the number of total plan participants:

| | 2016 | 2015 |
|--|-------|-------|
| Active employees | 1,294 | 1,254 |
| Retirees receiving pre-65 \$440 reimbursement | 8 | 9 |
| Retirees receiving pre-65 \$440 COBRA benefits | 61 | 49 |
| Retirees receiving Part-B subsidy | 375 | 360 |
| Retirees eligible for Part-B subsidy only | - | 12 |
| Retirees receiving Part-D subsidy only | 1 | 1 |
| Total plan participants | 1,739 | 1,685 |
| Retirees also receiving Part-D subsidy benefit | 45 | 108 |
| Retirees also eligible for Part-D | 33 | 34 |

The following table summarizes the funding status of the Defined Benefit Post-Employment Medical Plan:

| | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) – Projected Unit Credit (b) | Unfunded Actuarial Accrued Liability UAAL (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Assets in Excess/(Shortfall) AAL as a Percentage of Covered Payroll ((a – b)/c) |
|-----------------------|-------------------------------------|--|---|-----------------------|----------------------------------|---|
| Valuation Date | | | | | | |
| July 1, 2014 | \$ - | \$ 38,486,000 | \$ (38,486,000) | 0.0 % | \$ 143,602,000 | (26.8)% |
| July 1, 2015 | - | 41,057,000 | (41,057,000) | 0.0 % | 136,917,000 | (30.0)% |
| July 1, 2016 | - | 40,941,000 | (40,941,000) | 0.0 % | 129,940,000 | (31.5)% |

The following table summarizes the contributions to the Defined Benefit Post-Retirement Medical Plan:

| | Annual Required Contribution | Annual Contribution | Percentage Contributed |
|------------------------------|------------------------------------|------------------------|---------------------------|
| Fiscal Year | | | |
| July 1, 2013 - June 30, 2014 | \$ 5,006,000 | \$ 1,307,000 | 26.1% |
| July 1, 2014 - June 30, 2015 | 5,066,000 | 1,381,000 | 27.3% |
| July 1, 2015 - June 30, 2016 | 5,451,000 | 1,458,000 | 26.7% |

Washington Township Health Care District Required Supplementary Pension and Post-Employment Benefit Information (unaudited)

The following table summarizes the calculation of the net benefit obligation for the Defined Benefit Post-Employment Medical Plan:

| | Beginning of Year Net Benefit Obligation (a) | Recommended Contribution (b) | Actual Contribution (c) | Annual OPEB Cost (d) | Increase in Net Benefit Obligation (d-c) | End of Year Net Benefit Obligation ((a)+(d-c)) |
|------------------------------|--|------------------------------------|-------------------------------|-------------------------------|---|---|
| Fiscal Year | | | | | | |
| July 1, 2013 - June 30, 2014 | \$ 32,292,000 | \$ 5,006,000 | \$ 1,307,000 | \$ 3,481,000 | \$ 2,174,000 | \$ 34,466,000 |
| July 1, 2014 - June 30, 2015 | 34,466,000 | 5,066,000 | 1,381,000 | 3,438,000 | 2,057,000 | 36,523,000 |
| July 1, 2015 - June 30, 2016 | 36,523,000 | 5,451,000 | 1,458,000 | 3,726,000 | 2,268,000 | 38,791,000 |

The following table summarizes the actuarial assumptions used to determine the Defined Benefit Post-Employment Medical Plan liabilities as of June 30, 2016:

| | |
|-------------------------------|-----------------------|
| Valuation date | June 30, 2016 |
| Measurement date | June 30, 2016 |
| Actuarial cost method | Projected unit credit |
| Amortizing method | Level dollar |
| Remaining amortization period | 15 year open |
| Asset valuation method | Market Value |
| Actuarial assumptions | |
| Discount rate | 4.75% |
| Current trend rate | 7.00% |
| Ultimate trend | 5.00% |
| Year of ultimate trend rate | 2020 |